

Sustainability forms
the basis for development.
Solid Growth allows
reaching new heights.
Transformation opens
new horizons.

20
15

ANNUAL REPORT



Leading independent natural gas
producer in Russia

Sustainability enables us to confidently deliver our long-term strategy in challenging macroeconomic environments.

We demonstrate solid **Growth** building up on our competitive advantages and reaching new levels of operational and financial performance.

Transformation of our business, resulting from rapid growth in our liquid hydrocarbons and planned expansion into the global LNG market, opens up new horizons for long-term and efficient development.

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NOVATEK IS RUSSIA'S LARGEST INDEPENDENT NATURAL GAS PRODUCER AND THE SECOND LARGEST NATURAL GAS PRODUCER IN RUSSIA.

NOVATEK's main businesses are exploration and production, processing, transportation and marketing of natural gas and liquid hydrocarbons. The Company's primary production assets are located in the Yamal-Nenets Autonomous Region (YNAO), one of the largest gas regions in the world.

The Company's main strategic priorities are: ensuring development of hydrocarbon resource base, including efficient reserve management; growth in hydrocarbon production; maintaining a low-cost structure; optimizing and expanding existing marketing channels, and creating new marketing channels; and expansion into the international market for liquefied natural gas.



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12.8

bln boe of proved hydrocarbon reserves under SEC

67.9

bcm of natural gas produced in 2015

11%

of total Russian natural gas production

#3

globally among publicly traded companies by proved natural gas reserves

#6

globally among publicly traded companies by natural gas production volumes

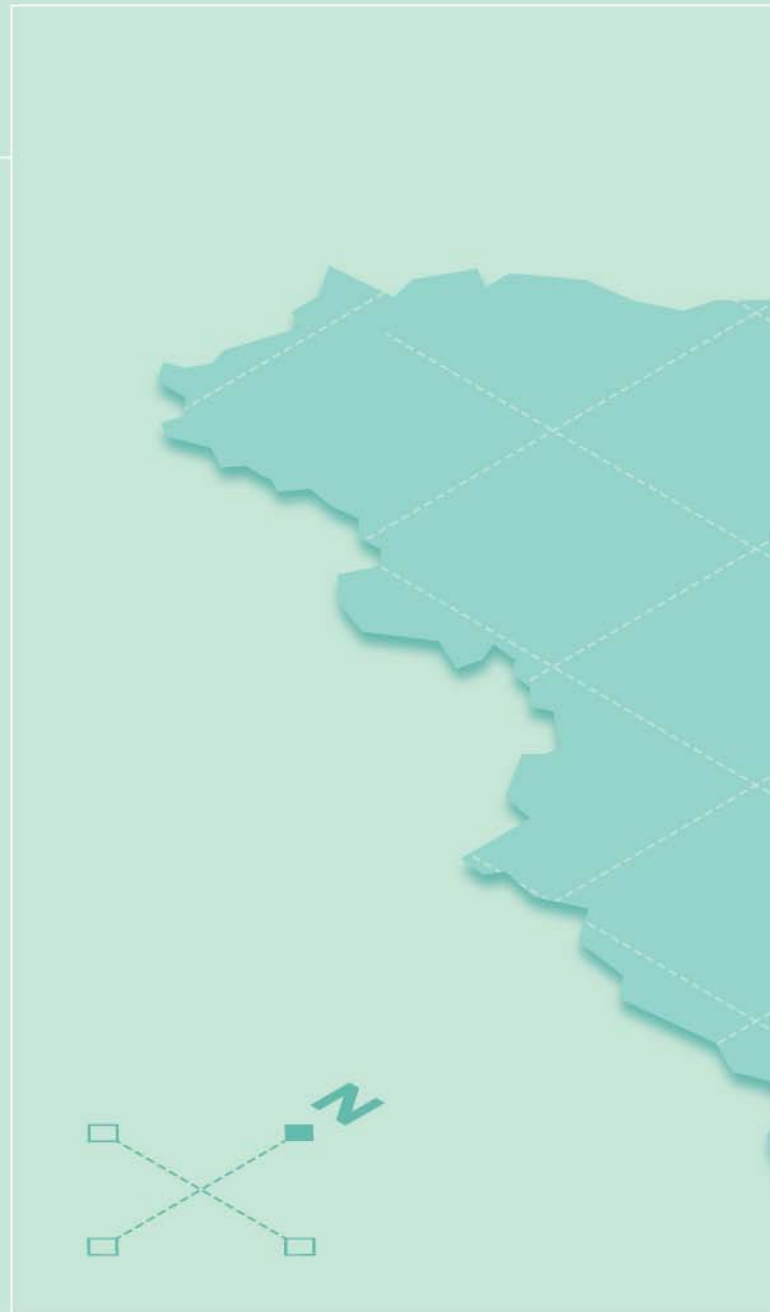
20%

of the overall gas supply to Russian market



OUR LICENSE AREAS ARE LOCATED IN THE YAMAL-NENETS AUTONOMOUS REGION OF THE RUSSIAN FEDERATION – ONE OF THE LARGEST REGIONS IN THE WORLD IN TERMS OF GAS RESERVES AND PRODUCTION VOLUMES.

WE HAVE A LARGE CONVENTIONAL RESERVE BASE WITH HIGH RESERVES CONCENTRATION AND HIGH POTENTIAL OF NEW GEOLOGICAL DISCOVERIES.

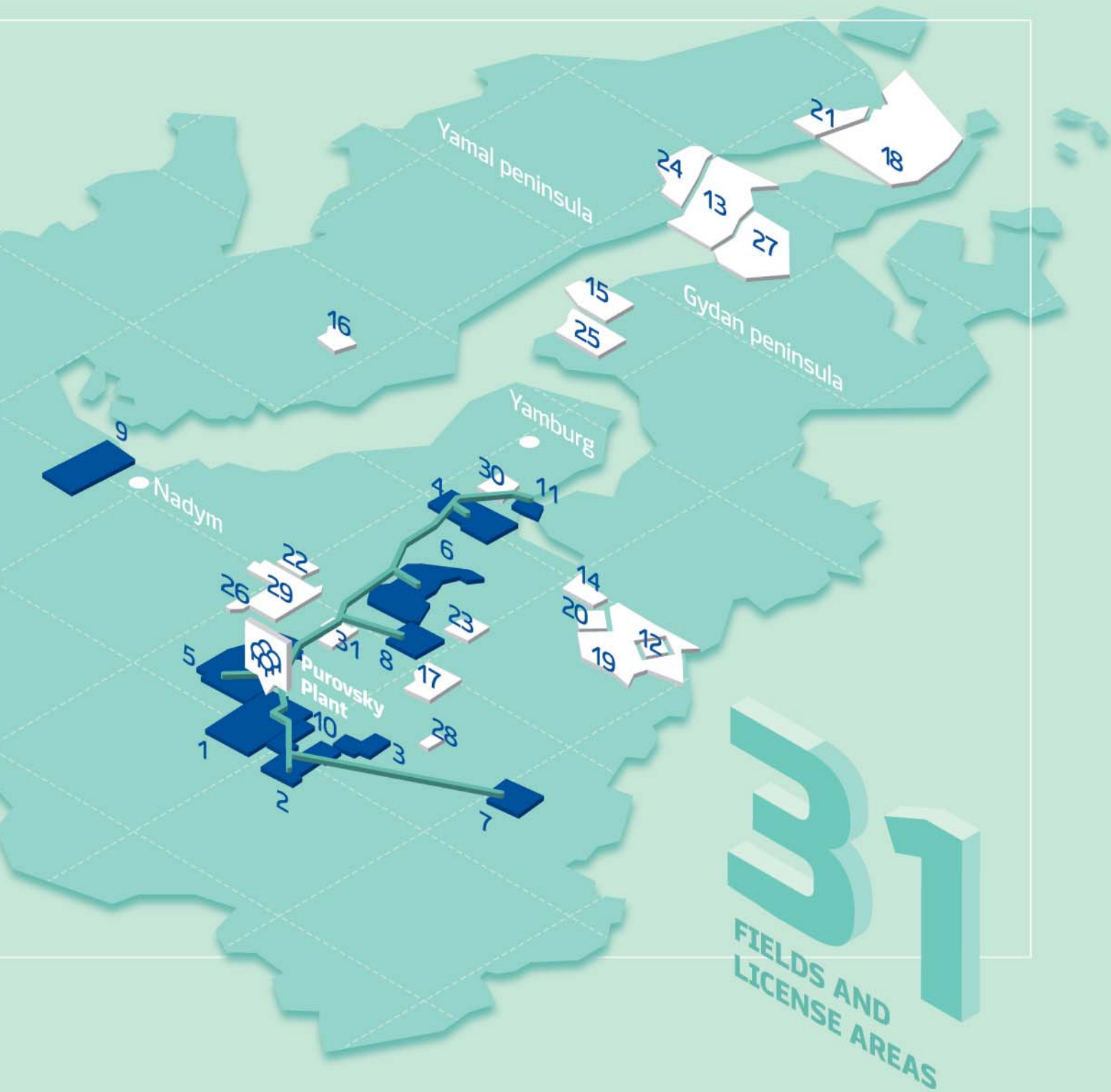


■ FIELDS AND LICENSE AREAS WITH COMMERCIAL PRODUCTION

1. East-Tarkosalinskoye field
2. Khancheyskoye field
3. North-Khancheyskoye field¹
4. North-Urengoyenskoye field
5. Olimpiyskiy license area
6. Samburgskiy license area
7. Termokarstovoye field
8. Yaro-Yakhinskiy license area
9. Yarudeyskoye field
10. Yumantilskiy license area
11. Yurkharovskoye field

□ PROSPECTIVE FIELDS AND LICENSE AREAS

12. Dorogovskoye field
13. East-Tambeyskiy license area
14. East-Tazovskoye field
15. Geofizicheskoye field
16. Malo-Yamalskoye field
17. North-Chaselskiy license area
18. North-Obskiy license area
19. North-Russkiy license area
20. North-Russkoye field
21. North-Tasiyskiy license area
22. North-Yubileynoye field



LEGEND



Purovsky Gas Condensate Processing Plant. Key element in the production chain used for gas condensate stabilization.



Ust-Luga Complex. Processes stable gas condensate into higher value added products.



Gas condensate pipelines of NOVATEK. Connect the producing fields with the Purovsky plant.

- 23. Raduzhnoye field
- 24. South-Tambeyskoye field
- 25. Trekhbugorniy license area
- 26. Ukrainsko-Yubileynoye field
- 27. Utrenneye field
- 28. West-Chaselskoye field
- 29. West-Urengoiyskiy license area
- 30. West-Yurkharovskoye field
- 31. Yevo-Yakhinskiy license area

1. Since October 2014 — North-Khancheykoye + Khadyryakhinskoye field.

LETTER TO SHAREHOLDERS

WE SUCCESSFULLY IMPLEMENTED ALL OF OUR OPERATIONAL AND INVESTMENT PLANS FOR 2015 AND CONTINUED DEVELOPING OUR BUSINESS ACCORDING TO OUR LONG-TERM STRATEGY, WHICH ONCE AGAIN PROVED RESILIENT AND EFFICIENT.



ALEXANDER NATALENKO
Chairman of NOVATEK's Board of Directors



LEONID MIKHELSON
Chairman of NOVATEK's Management Board

+51%

growth in liquid hydrocarbon production

+82%

growth in throughput volumes at the Purovsky Plant

+34%

growth in EBITDA



MARK GYETVAY
Deputy Chairman of NOVATEK's Management Board



THE GROWTH OF LIQUID HYDROCARBON SHARE IN OUR OVERALL PRODUCTION VOLUMES COMBINED WITH THE FULL UTILIZATION OF OUR VERTICALLY INTEGRATED CHAIN FOR GAS CONDENSATE CONTRIBUTED A STRONG POSITIVE EFFECT ON THE COMPANY'S FINANCIAL PERFORMANCE.

Dear Shareholders,

TWO THOUSAND AND FIFTEEN was a challenging year for the oil and gas industry. The macroeconomic environment throughout the year, including the precipitous drop in hydrocarbon prices and the significant volatility in foreign exchange rates, tested the SUSTAINABILITY of NOVATEK's business operations. Despite this fact, we are pleased to report that we successfully implemented all of our operational and investment plans for 2015 and continued developing our business according to our long-term strategy, which once again proved resilient and efficient. In the reporting year, we commissioned a number of major new fields, increasing our natural gas production by 9% and our liquid hydrocarbon production by a record GROWTH rate of 51%, thus enabling us to fully utilize our gas condensate processing plants according to the facilities rated capacities.

We achieved another important step in the ongoing TRANSFORMATION of our business — the share of liquid hydrocarbons in the Company's overall production and volumes of stable gas condensate processing into high value-added products as well as the cash flows generated therefrom grew significantly throughout the year. One of the fundamental tenets of our corporate strategy is sustainable business development. The difficult market conditions did not affect our key principle of adhering to the highest standards in environmental protection, occupational health and safety, social responsibility, corporate governance and transparency.

Many international oil and gas companies announced significant reductions in capital investment programs, staff layoffs, as well as postponing or cancelling exploration and development projects and writing off significant reserves. We have consistently highlighted our key competitive edge — our low-cost structure, including very low reserve development and lifting costs. NOVATEK is traditionally ranked as one of the lowest cost producers among the leading public oil and gas companies globally. This enviable fact along with

the Company's well-balanced business structure and high operating flexibility underpin our strong SUSTAINABILITY and enables us to efficiently develop and grow our business in various hydrocarbon commodity price environments.

Despite the decline in hydrocarbon prices our SEC proved hydrocarbon reserves grew by 1.4% in the reporting year while the organic reserves replacement ratio reached 148%. We demonstrated GROWTH in our core financial indicators, enabling the Company's Board of Directors to recommend to the General Meeting of Shareholders to approve dividends for 2015 at RR 13.5 per share, which exceeds the dividend paid out for the previous year by 31%. Dividend growth highlights our confidence in the future SUSTAINABILITY of our business and sufficiency of capital resources to further implement our corporate strategy and vision. Furthermore, our operating cash flow was more than double the amount of our capital expenditures in the reporting year, while our construction and drilling works were carried out in full as planned.

Thanks to these efforts, we commissioned three major new fields in 2015. In April, commercial production started at the Yaro-Yakhinskoye oil and gas condensate

field developed by the Arcticgas joint venture (JV). In May, we commissioned the Termokarstovoye gas condensate field operated by the Terneftegas JV. Both of these new fields reached their plateau production levels in June. In the beginning of December, we launched the Yarudeyskoye crude oil field developed by the Yargeo JV. This field ramped-up to its design capacity within a record-short period of time for an oil project — annualized oil production of 3.5 million tons was achieved by the end of 2015. The launch of the Yarudeyskoye field is another important milestone in the Company's history as it represents successful completion of our first major crude oil development project. The above mentioned three fields contributed to record GROWTH in NOVATEK's liquid hydrocarbons in 2015, including a 55% increase in gas condensate production.

We also realized full year run rates on facilities commissioned in 2014, which positively impacted our production dynamics during the year; namely, Phase 3 of the Samburgskoye field and two phases of the Urengoykoye field within the Samburgsky license area developed by Arcticgas. Liquid hydrocarbons increased by four percentage points as part of our overall production as compared to 2014 and amounted to 15%. The fields we commissioned in 2015 will generate double-digit liquids production growth in 2016 as well.

With the timely capacity expansion at our Purovsky Gas Condensate Stabilization Plant we fully covered the steep growth in this feedstock production by relevant processing capabilities. The Purovsky Plant raised its processing volumes by 82% to fully utilize its design capacity in the reporting year, as did the Ust-Luga Stable Gas Condensate Fractionation Complex, which increased its processing volumes by 43%. The Complex's high value added products accounted for one-third of NOVATEK's total revenue for 2015.

The GROWTH of liquid hydrocarbon share in our overall production volumes combined with the full utilization of our vertically integrated chain for gas condensate, which positively impacts the unit profitability of our liquids sales, contributed a strong positive effect on the Company's financial performance. As a result, NOVATEK's revenues grew by 33% year-on-year, while our Normalized EBITDA rose to a record high of RR 2 14 bln. Meanwhile, our liquid revenues exceeded revenues derived from natural gas for the first time in our corporate history. Growing revenues from liquid hydrocarbon sales, denominated mainly in foreign currencies, substantially reinforced our SUSTAINABILITY in the challenging macroeconomic environment.

The formal launching of the Yarudeyskoye field at the end 2015 marked the conclusion of the first five years of our long-term development strategy that

we presented to the investment community in late 2011. Compared to 2010, our proved reserves grew by 58%. We put on stream production facilities with the aggregate capacity of 45 bcm of natural gas and 13 million tons of liquid hydrocarbons, which equals to 7% of Russia's total natural gas production and 3% of liquid hydrocarbons production for 2010. Our gas production increased by 82% while liquid hydrocarbon production grew by 2.5 times. NOVATEK's share in the total Russian natural gas production moved up by 5 percentage points to 11%, our share in the domestic gas market went up twofold to approximately 20% and the proportional share of end customers in our overall gas sales volumes increased from 64% to 93%. We grew our revenues and EBITDA by four times and retained our lifting costs at approximately \$0.5 per BOE.

We have successfully achieved all of the ambitious mid-term goals and successfully accomplished the first phase of our business TRANSFORMATION. The rapid growth in liquid hydrocarbon production provided a much higher profitability per unit of sales as compared with our natural gas sales, and has become a key driver of our financial performance over recent years. We have reinforced our SUSTAINABILITY, strengthened our competitive advantages and considerably built up the basis for a successful implementation of the next important phase of our business TRANSFORMATION — entering the international LNG market.

**WE CONSIDERABLY BUILT UP
THE BASIS FOR A SUCCESSFUL
IMPLEMENTATION OF THE NEXT
IMPORTANT PHASE OF OUR
BUSINESS TRANSFORMATION —
ENTERING THE INTERNATIONAL
LNG MARKET**



As of the end 2015, construction of the LNG plant's first train under our flagship Yamal LNG Project was more than 56% complete. Yamal LNG is built on the conventional resource base of the South-Tambeyskoye gas condensate field, which underscores the project's key competitive advantage. Our field development costs account for less than 15% of the project's overall capital expenditures, while lifting costs are estimated to match the current weighted average level achieved at NOVATEK. This distinction is important as it means that Yamal LNG's overall feedstock cost for liquefaction will be considerably lower as compared to other LNG projects currently implemented around the globe. The very low upstream cost base more than compensates for higher shipping costs due to the Arctic navigation conditions and remoteness from the Asia-Pacific markets. This makes Yamal LNG economically feasible in today's low hydrocarbon price environment and highly competitive in key importing markets.

Forty-one production wells have been drilled at the South-Tambeyskoye field, representing approximately 70% of the well stock required for the plant's first train. Long-lead items, including the LNG plant modules, began arriving in Sabetta in September of the reporting year. Among the items delivered as of the year end are the full equipment package for compressor lines of the plant's first and second trains, the cryogenic heat exchanger, the first seven plant modules, a number of pipe rack modules, power plant turbines and other pieces of equipment. Installation of the equipment on ready foundations started. Thus, Yamal LNG is progressing in full accordance with the project's schedule, with the intent to commence commercial LNG production in 2017.

In December 2015, we signed binding definitive agreements to sell a 9.9% equity stake in the Yamal LNG project to China's Silk Road Fund, including the receipt of a 15-year loan for the purpose of financing of Yamal LNG. This key transaction is another important step toward executing our long-term development strategy, as it enables us to achieve the appropriate target shareholder structure and contributes to the planned financing of the project and further facilitates the project's successful implementation.

Environmental protection and industrial safety remains a core focus of our operations. One of our key priorities is to protect the ecosystems of the Far North where our fields are located. Applying state-of-the-art technologies that both improve economic efficiency and make HSE systems more reliable and minimize the environmental impact is of particular interest for NOVATEK.

We take special care in preserving the cultural heritage and traditional lifestyle of indigenous minorities of the North. Working jointly with regional governments we

invest in social infrastructure and are implementing several cultural, educational and charitable programs. Alongside our operational and financial performance indicators, we measure our business success by our contribution to the development of regions where we operate.

We would also like to take this opportunity to recognize the contributions our highly qualified employees make in implementing our long-term development strategy focused on GROWTH and efficient TRANSFORMATION of our business and on ensuring the Company's high SUSTAINABILITY in the challenging market conditions. We would not be able to achieve these high-level goals without their dedication and commitment to our mission.

On behalf of the Board of Directors and Management Board, we are pleased to present to our valued stakeholders the NOVATEK's 2015 Annual Report, and we would like to thank everyone for your continued confidence in the Company and our strategic plans. Although 2015 has been a challenging year for the oil and gas industry, we remain committed to delivering results according to our strategic goals and objectives consistent with internationally recognized best practices and sustainable development principles.

Kind regards,

ALEXANDER NATALENKO

Chairman of the
Board of Directors



LEONID MIKHELSON

Chairman of the
Management Board

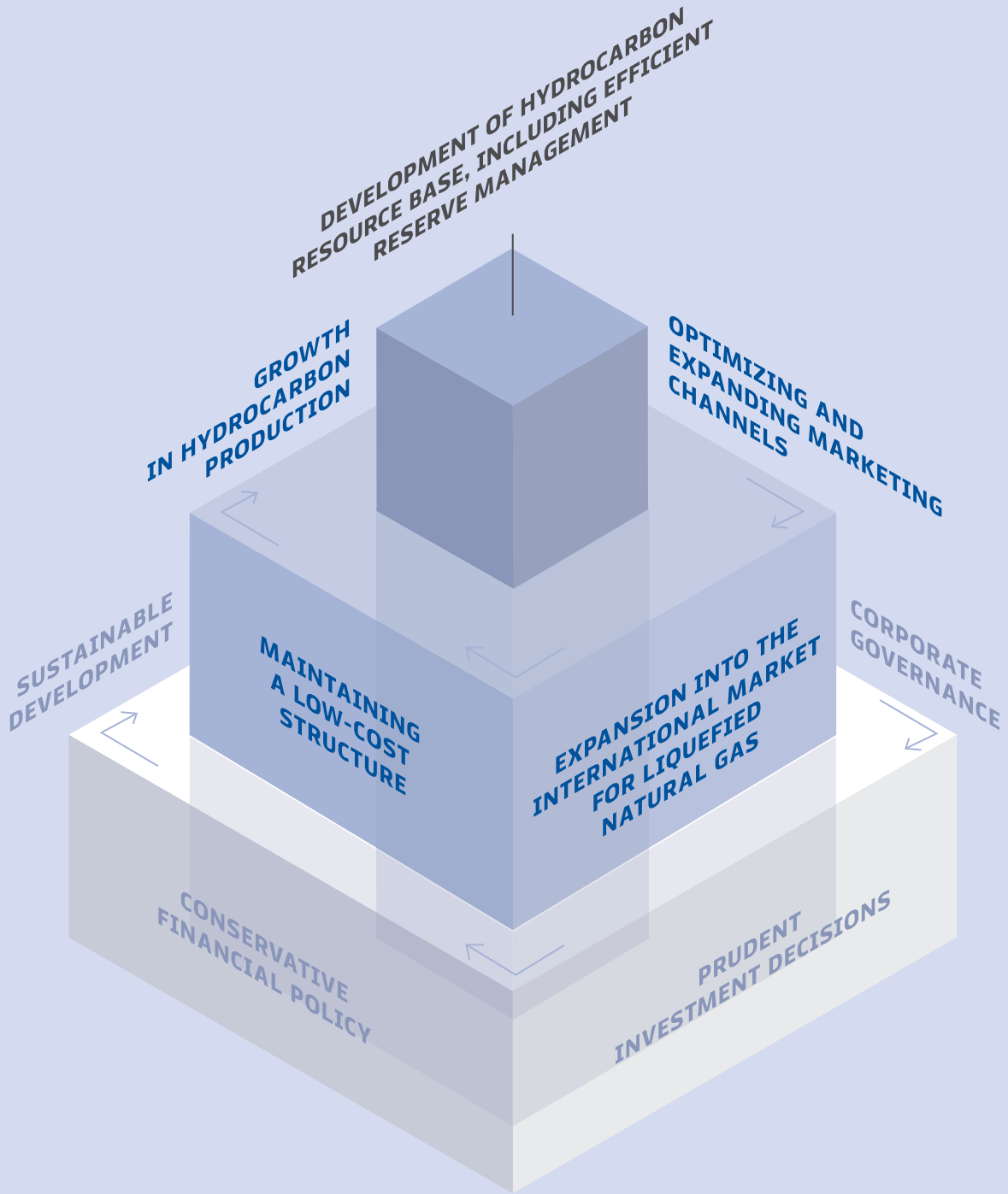


MARK GYETVAY

Deputy Chairman of the
Management Board



STRATEGIC PRIORITIES



The Company has a number of key competitive advantages to successfully implement its strategy. Namely: the size and structure of its hydrocarbon resource base; the close proximity of existing infrastructure to core producing fields; a well-developed customer base for natural gas sales; its own facilities for gas condensate processing and product exports; and a well developed marketing channel for liquefied petroleum gas (LPG). Our high level of operational flexibility and our

consistent and efficient use of leading edge technologies in production and processing practices as well as our adherence to sound and prudent business management support our competitive position.

Our commitment to social responsibility and to observing the latest environmental, health and safety standards are integral parts of NOVATEK's development strategy.

KEY EVENTS AND ACHIEVEMENTS 2015

01

RECORD GROWTH IN LIQUID HYDROCARBON PRODUCTION OF 51% TO MORE THAN 9 MMT



Launch of the Yarudeyskoye oil field in the beginning of December. The field is developed by our Yargeo joint venture and ramped up to its full production capacity by the end of 2015.

02

Launch of the Termokarstovoye gas condensate field in May. The field is developed by our Terneft-egas joint venture and ramped up to its full production capacity in June 2015.

03

Increase in our Normalized EBITDA by 34% to a record high of RUB 214 bln.

04



Signing of binding definitive agreements with China's Silk Road Fund on the sale of a 9.9% equity stake in the Yamal LNG project, including the receipt of a 15-year loan for the purpose of financing of Yamal LNG.

05

Record growth in our liquid hydrocarbon sales volumes by 82%, contributing to an increase in its respective share in total revenue to 53%.

06

Conclusion of a number of long-term contracts for domestic natural gas sales and international LNG sales.

07



Launch of the Yaro-Yakhinskoye oil and gas condensate field in April. The field is developed by our Arcticgas joint venture and ramped up to its full production capacity in June 2015.

KEY INDICATORS

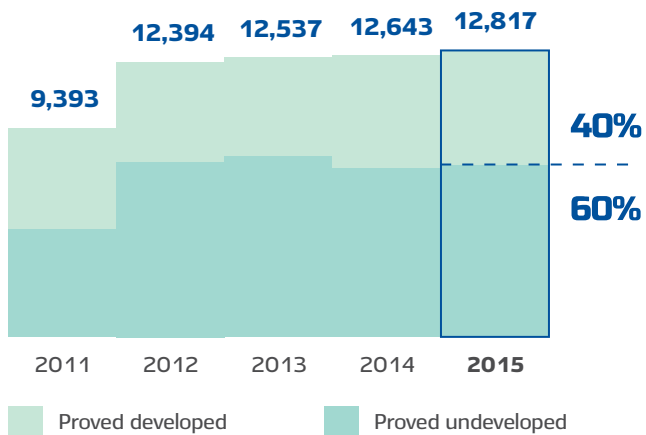
	Units	2014	2015	Change
FINANCIAL INDICATORS				
Total revenues	RR mln	357,643	475,325	32.9%
Normalized profit from operations ¹	RR mln	125,140	139,741	11.7%
Normalized EBITDA (including share in EBITDA of JVs) ¹	RR mln	159,631	214,466	34.4%
Profit attributable to shareholders of NOVATEK	RR mln	37,296	74,396	99.5%
Earnings per share, basic and diluted	RR	12.34	24.63	99.6%
Net cash provided by operating activities	RR mln	111,241	132,864	19.4%
Net cash used for capital expenditures ²	RR mln	62,040	50,584	(18.5)%
Free cash flow	RR mln	49,201	82,280	67.2%
OPERATING INDICATORS				
Proved natural gas reserves (SEC) ³	bcm	1,751	1,775	1.4%
Proved liquid hydrocarbon reserves (SEC) ³	mmt	140	143	2.0%
Total proved hydrocarbon reserves (SEC) ³	mmboe	12,643	12,817	1.4%
Marketable production of natural gas	bcm	62.13	67.91	9.3%
Marketable production of liquid hydrocarbons	mt	6,036	9,094	50.7%
Total marketable production	mmboe	456.7	521.6	14.2%
POSITIONS IN THE RUSSIAN INDUSTRY				
Share in natural gas production	%	9.7%	10.8%	1.1 p.p.
Share in liquid hydrocarbon production	%	1.1%	1.7%	0.6 p.p.

1. Adjusted for the effect on disposal of interests in joint ventures.

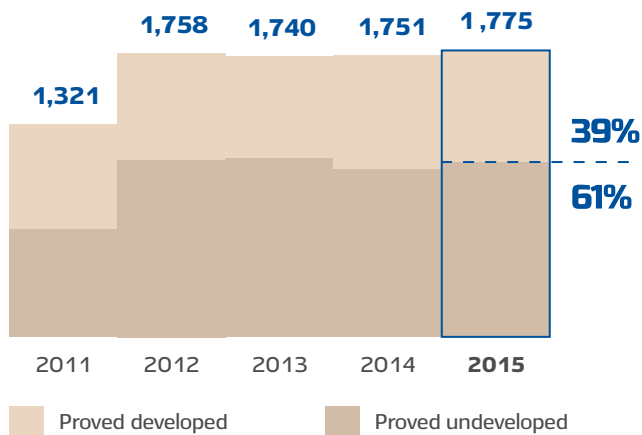
2. Cash used for capital expenditures represents purchases of property, plant and equipment, materials for construction and capitalized interest paid per Consolidated Statement of Cash Flows net of payments for mineral licenses and acquisition of subsidiaries.

3. Proved reserves as at the end 2014 have been adjusted to include 100% of the Yarudeyskoye field reserves (previously accounted for on a 51% basis).

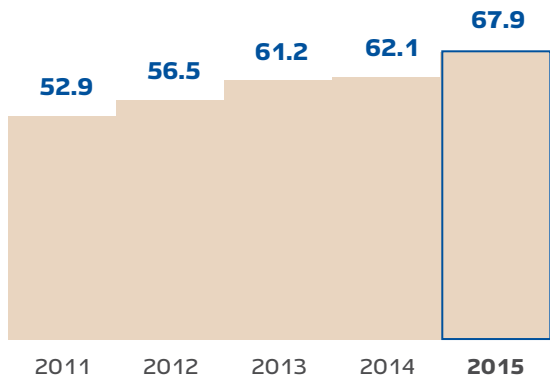
Total proved hydrocarbon reserves (SEC), mmmboe



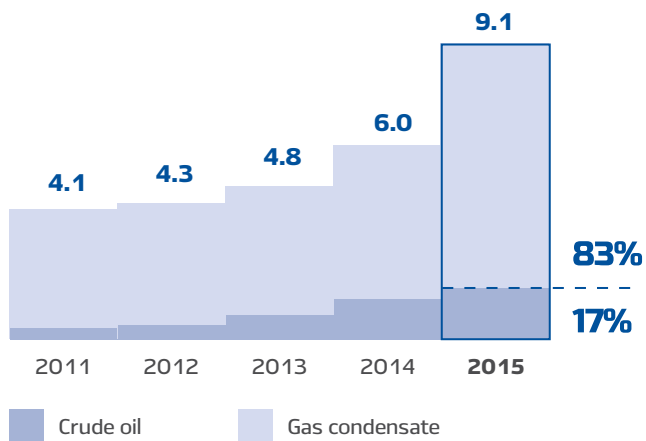
Proved natural gas reserves (SEC), bcm



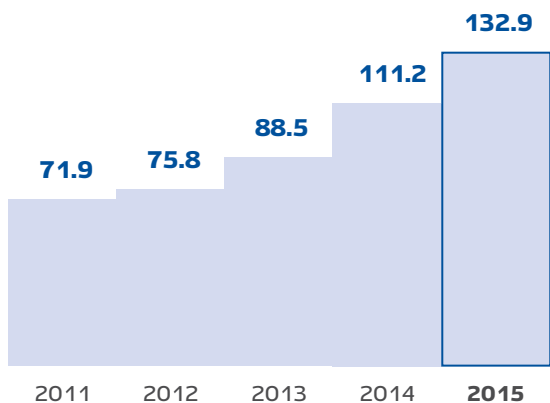
Marketable natural gas production, bcm



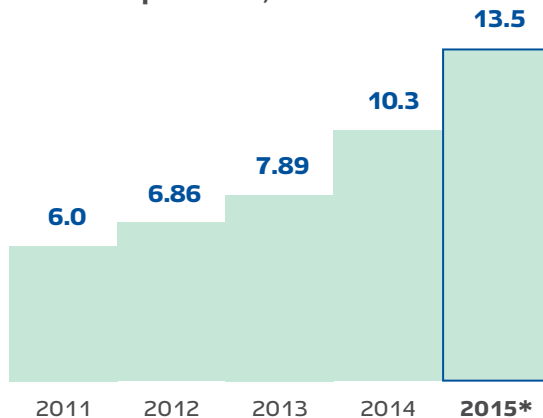
Marketable liquids production, mmt



Operating cash flow, RR bln



Dividends per share, RR

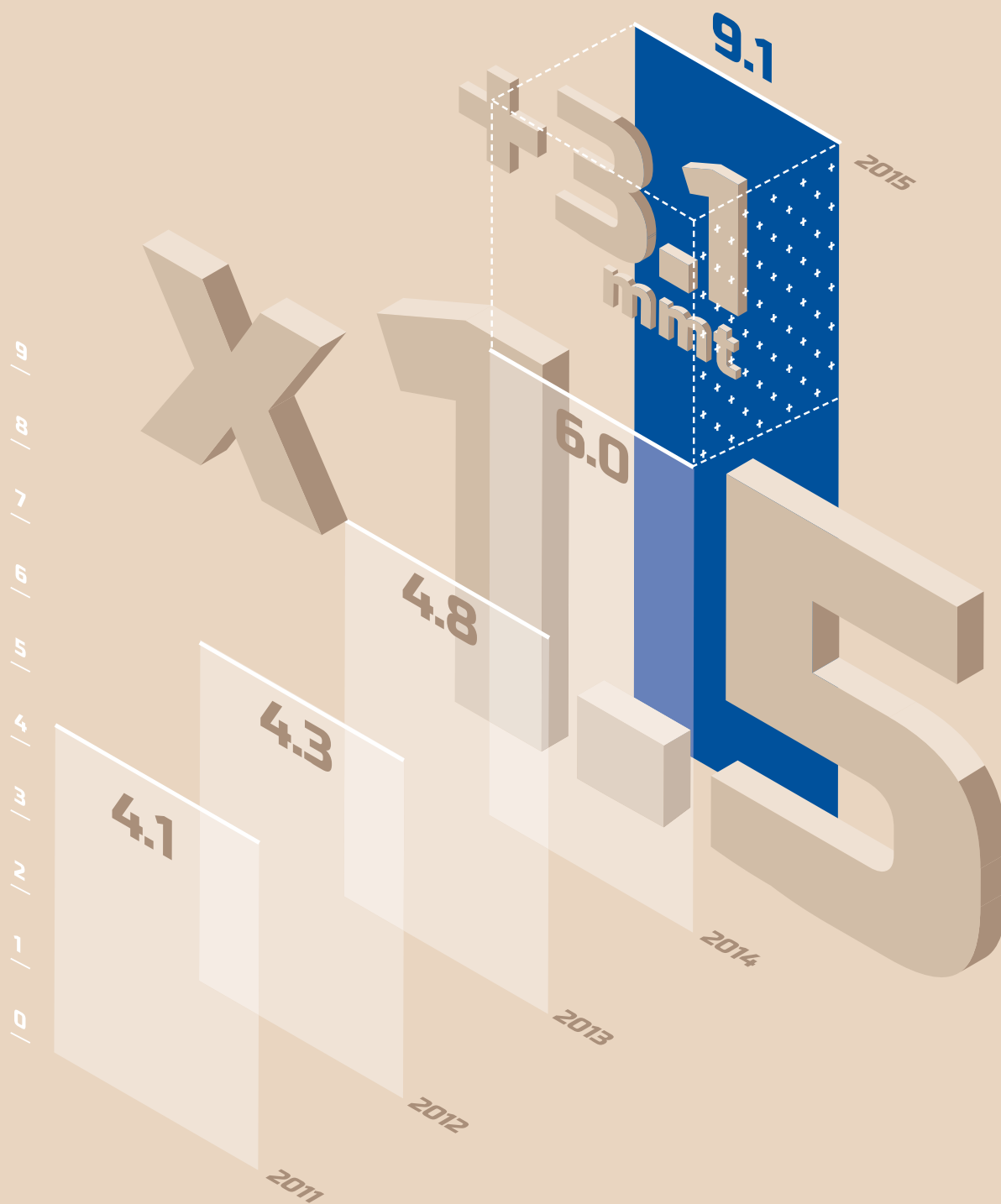


* Recommendation of the Board of Directors.

RECORD GROWTH IN LIQUID HYDROCARBON PRODUCTION

Our liquid hydrocarbon production increased by a record growth rate of 51% year-on-year. The launch of three major gas and gas condensate fields in 2014 and 2015 enabled us to achieve high growth rates of gas condensate production, while implementation of the oil program and launch of the Yarudeyskoye oil field in 2015 resulted in higher crude oil output.

Marketable production of liquid hydrocarbons, mmt



LIQUID HYDROCARBON PRODUCTION GREW BY 1.5 TIMES AS COMPARED TO 2014

TERMOKARSTOVOYE FIELD

Launched in May 2015 and achieved planned daily production levels equivalent to approximately 2.4 bcm of natural gas and 0.8 mmt of de-ethanized gas condensate per annum as early as June 2015.

Natural gas and gas condensate is produced from the Jurassic layers, which were developed by horizontal wells with horizontal lengths of up to 2.0 km. Twenty-two production wells were drilled at the field by year-end.

A unique feature of the field is the low-temperature (minus 60°C) gas treatment process, involving adsorptive gas dehydration, gas expansion turbines and special low-temperature gas condensate de-ethanization columns. This unique treatment process doesn't require methanol and enhances extraction of liquid hydrocarbons, improving the field's economic efficiency.

1

GAS INLET AND SEPARATION SHOP

The shop separates gas from gas condensate, extracts water, connects and disconnects flow lines from well pads, reduces gas pressure and injects methanol into the flow lines.



2

GAS ADSORPTION DRYING UNIT

The unit extracts water vapors from gas by using zeolites. It enables drying natural gas to a water dew-point of -60°C. Once dried in the adsorption unit, the gas flows into the low temperature separation shop where light hydrocarbon fractions are extracted from marketable gas. Adsorption drying ensures high-quality removal of water and improves economic efficiency by enabling best possible extraction of light hydrocarbons in the separation process and requiring no methanol.

3

LOW TEMPERATURE SEPARATION SHOP

This shop extracts light hydrocarbons from natural gas. Turbo expansion technology ensures separation temperatures down to minus 55-60 °C. Cooling the gas to low temperatures enables better condensation of liquid hydrocarbons and improves the efficiency of marketable gas treatment while ensuring that all quality requirements are met.

4

CONDENSATE DE-ETHANIZATION UNIT

The unit extracts methane and ethane fractions that remain after low temperature separation from gas condensate. Extracted gas is fed into the trunk pipeline while de-ethanized (unstable) gas condensate is delivered through a condensate pipeline to the Purovsky Plant for further processing.



2.4 BCM PER ANNUM –
NATURAL GAS
PRODUCTION CAPACITY

5

POWER PLANT

With a capacity of 12.5 MW (five units 2.5 MW each), the power plant generates electricity for the field needs.

6

FIRE STATION

The fire station includes two fire brigades equipped with state-of-the-art firefighting tools and machinery.

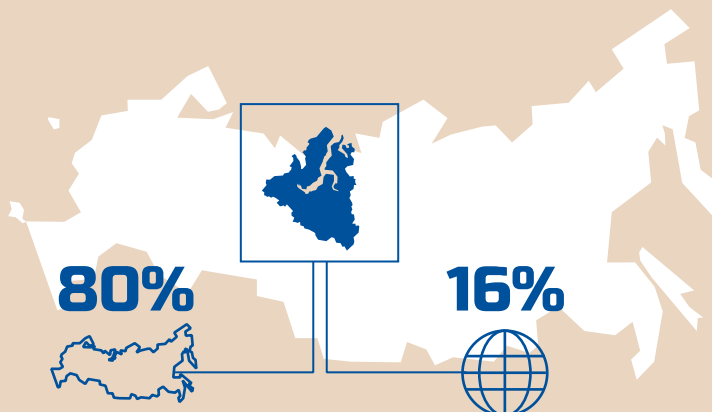
7

ADMINISTRATIVE AND TECHNICAL BUILDINGS

An office and accommodation building, a chemical laboratory, repairs and maintenance area, storage facilities and technical buildings

GEOLOGICAL EXPLORATION AND HYDROCARBON PRODUCTION

THE YAMAL-NENETS AUTONOMOUS REGION OF RUSSIA ACCOUNTS FOR APPROXIMATELY 16% OF GLOBAL NATURAL GAS PRODUCTION AND 80% OF RUSSIAN NATURAL GAS PRODUCTION.



As of 31 December 2015, NOVATEK's SEC proved reserves, including the Company's proportionate share in joint ventures, aggregated 12,817 mboe, including 1,775 bcm of natural gas and 143 mmt of liquid hydrocarbons. Despite the continued price decline for benchmark crude oil prices on the international hydrocarbon market, the Company's proved reserves increased by 1.4% compared to year-end 2014¹, and our organic proved reserve replacement rate was 148%. At year-end 2015, the Company's reserve to production ratio (or R/P ratio) was 25 years.

In 2015, we continued full-scale exploration works at our license areas located on the Gydan Peninsula and offshore in the Gulf of Ob to properly assess the resource potential of this strategically important region. We started three-dimensional (3D) seismic studies at the North-Obskiy offshore license area and also conducted 3D seismic and exploration drilling works at the Utrenniy license area.

Exploration activities also continued at the fields and license areas in the Nadym-Pur-Taz region. Seismic

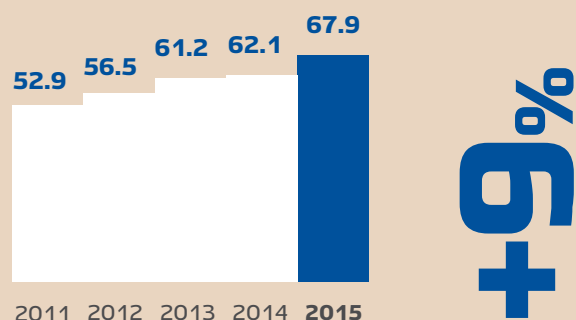
studies were done at the North-Russkiy and Dorogovskiy license areas while exploration drilling was performed at the North-Russkiy and Malo-Yamalskiy areas, as well as at the Samburgskiy and Yevo-Yakhinskiy license areas of the Arcticgas JV.

In 2015, NOVATEK carried out commercial hydrocarbon production at 13 fields. Marketable production from all fields (including the Company's share in production of joint ventures) amounted to 521.6 mboe, representing an increase of 14.2% over the prior year.

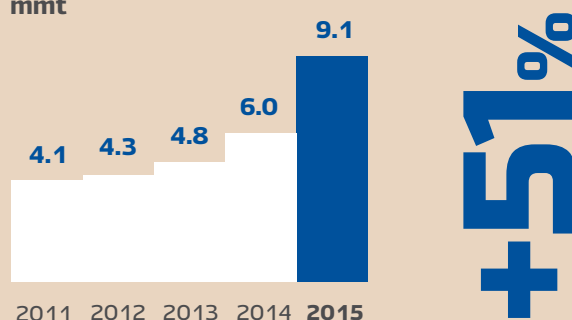
Total marketable production of natural gas including the Company's share in production of joint ventures aggregated 67.91 bcm, representing 85.1% of our total hydrocarbon output.

Marketable production of liquid hydrocarbons including the Company's share in production of joint ventures totalled 9,094 thousand tons, of which 83% was unstable de-ethanized gas condensate and the remaining 17% consisted of crude oil.

Marketable production of natural gas, bcm

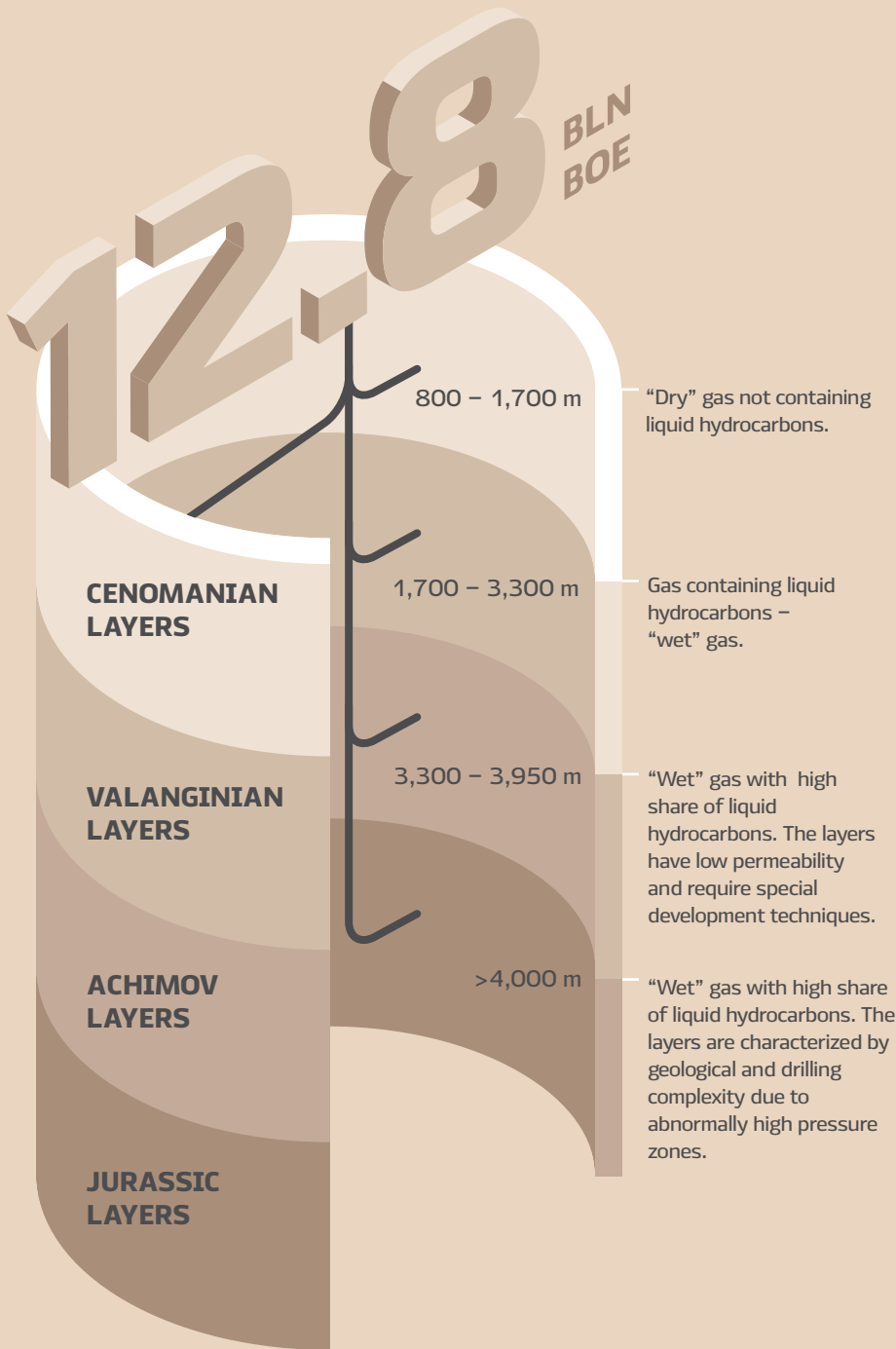


Marketable production of liquid hydrocarbons, mmt



1. Proved reserves as at the end 2014 have been adjusted to include 100% of the Yarudeyskoye field reserves (previously accounted for on a 51% basis).

SEC proved reserves of NOVATEK as of 31 December 2015



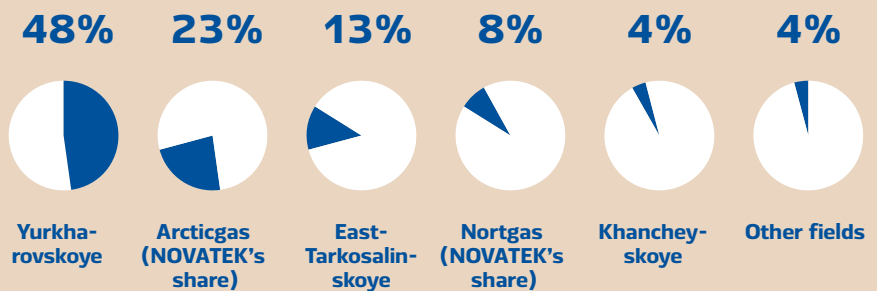
25 years – SEC proved reserve life as of 31 December 2015

2.2 USD per boe – Reserve Replacement Costs in 2011–2015

0.5 USD per boe – Lifting Costs in 2015

Structure of marketable hydrocarbon production in 2015

522 mmboe



1**FIRST AND SECOND SEPARATION UNITS**

Used for a three-phase separation of oil from produced water and associated petroleum gas. The first unit allows to simultaneously separate oil from gas and partially dehydrate crude oil. After this process the water content in oil shall not exceed 1%. The second unit dehydrates crude oil to 0.1% water content.

2**TERMINAL SEPARATION UNIT**

Designed for final “hot” oil stripping until desired values of saturated vapor pressure are reached and associated gas is scrubbed.

3**OIL TANKS**

Six tanks with 5,000 cubic meters capacity each.



3.5

**MMT PER ANNUM –
CRUDE OIL PRODUCTION
CAPACITY**

4

OIL PUMPING STATION FOR EXTERNAL TRANSPORTATION

Consists of four electrically driven pumping units; designed to transfer treated oil to the trunk pipeline.

5

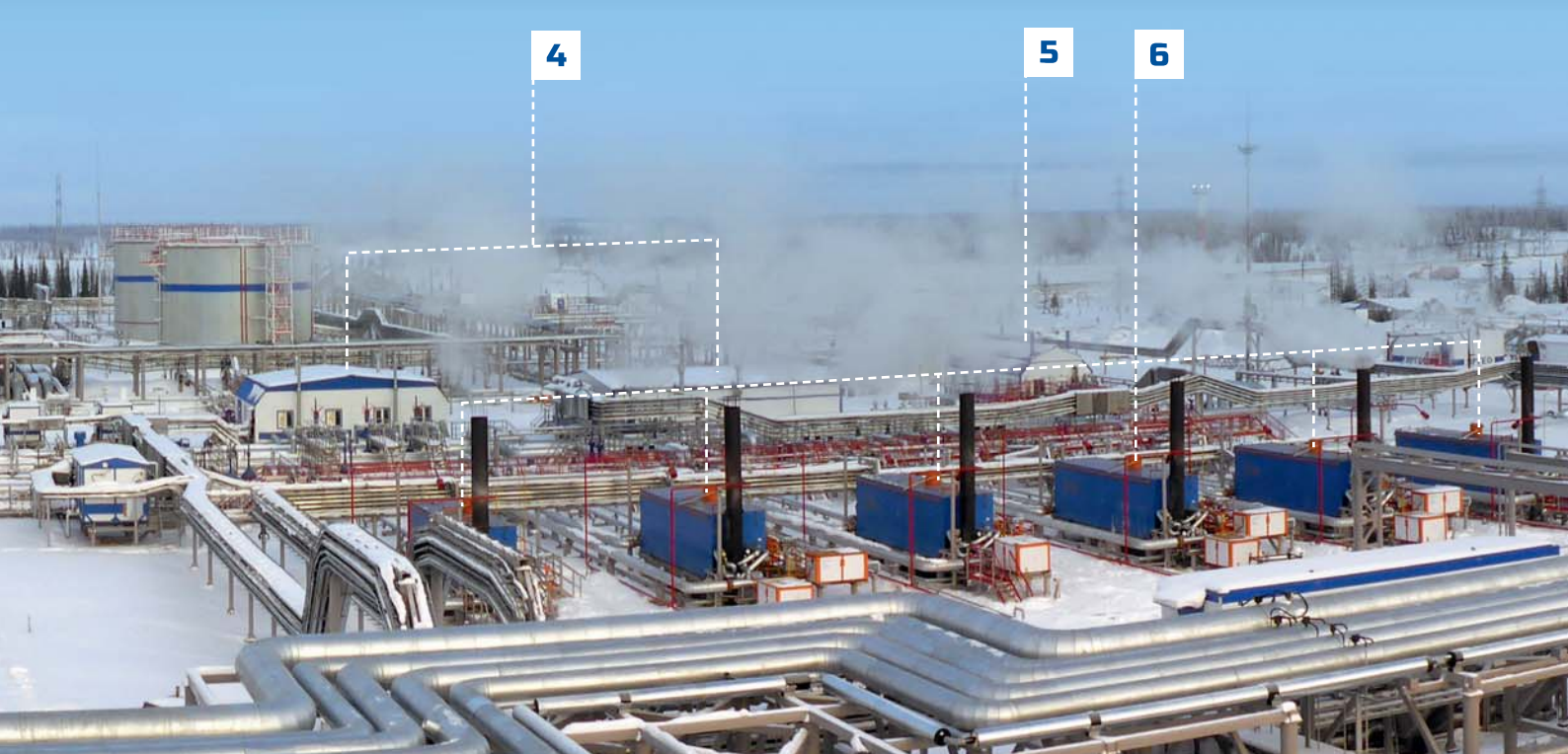
METERING STATION

Used for automated measurement of the oil parameters and volume.

6

CRUDE OIL HEATERS

Used to heat crude oil to 45°C. The heated crude oil is then transferred to the second separation unit.



YARUDEYSKOE OIL FIELD

Launched in the beginning of December 2015. The field is developed by the Yargeo JV (NOVATEK holds a 51% share). The field ramped up to its full production capacity of 3.5 million tons per annum, or 9,700 tons of crude oil per day, by the end of December, which is a very short period of time for full ramp up of a crude oil project. Only 21 wells were required to achieve these production flow rates. As of the end 2015, a total of 39 wells were drilled at the field. The field's infrastructure also includes a central oil treatment facility, oil and gas gathering systems, a pumping station, and gas and crude oil pipelines. After treatment at the field, the

crude oil is transported via our crude oil pipeline (approximately 350 km long) to Purpe, where it is injected into the trunk pipeline system operated by Transneft.

The Yarudeyskoye field is the largest oil asset in our portfolio and is characterized by unique geology, which combined with the application of state-of-the-art drilling and completion technologies allowed us to achieve the average production flow rate of more than 400 tons per day per well, with the potential flow rate of one of our most prolific wells exceeding 1,200 tons per day.

Gas treatment facility

1

GAS INLET AND SEPARATION SHOP

The shop is used to connect and disconnect flow lines from well pads, inject methanol into the flow lines, reduce gas pressure, and effect gas pre-separation by removing liquid droplets and condensate.

2

GAS AND CONDENSATE TREATMENT SHOPS

The shops separate gas from liquid droplets and condensate, dehydrate gas by means of low temperature separation, separate condensate from water-methanol mixture, and degasify condensate.

3

METHANOL RECEIVING AND INJECTION UNIT

The unit receives, stores and supplies methanol to well pads, flow lines, gas inlet and separation shop, gas and condensate treatment shops.

4

COMPRESSOR STATION

The station increases the pressure of gas flowing from the de-ethanization unit.



YARO-YAKHINSKOYE FIELD

Commissioned in April 2015 and reached its design capacity of 7.7 bcm of natural gas and more than 1.3 mmt of de-ethanized gas condensate on an annualized basis in June 2015. The field produces from the Valanginian layers. As of the end 2015, a total of 38 wells were drilled with horizontal sections of up to 1 km and initial daily flow rate of up to 1.2 mmcm of gas and 270 tons of gas condensate.

Gas condensate de-ethanization facility

5

CONDENSATE BUFFER TANKS AND PUMPS SHOP

The shop performs automated metering of de-ethanized gas condensate, injects it into trunk pipeline and keeps an inventory of de-ethanized gas condensate required for uninterrupted operation of pumps.

6

CONDENSATE DE-ETHANIZATION SHOP

The shop extracts methane-ethane fractions from gas condensate. Extracted gas is fed into the trunk pipeline, while de-ethanized (unstable) gas condensate is delivered through a condensate pipeline to the Purovsky Plant for further processing.

7

DEETHANIZATION COLUMNS

Distillation columns (de-ethanization columns) with trays fractionate condensate into de-ethanization gas and de-ethanized condensate. Hydrocarbons mixture is heated in a furnace and then flows into the columns, where vapors enriched with low-boiling cuts rise

while heavier cuts descend through trays. As a result, methane and ethane (de-ethanization gas) are separated from de-ethanized condensate, the final product of de-ethanization.

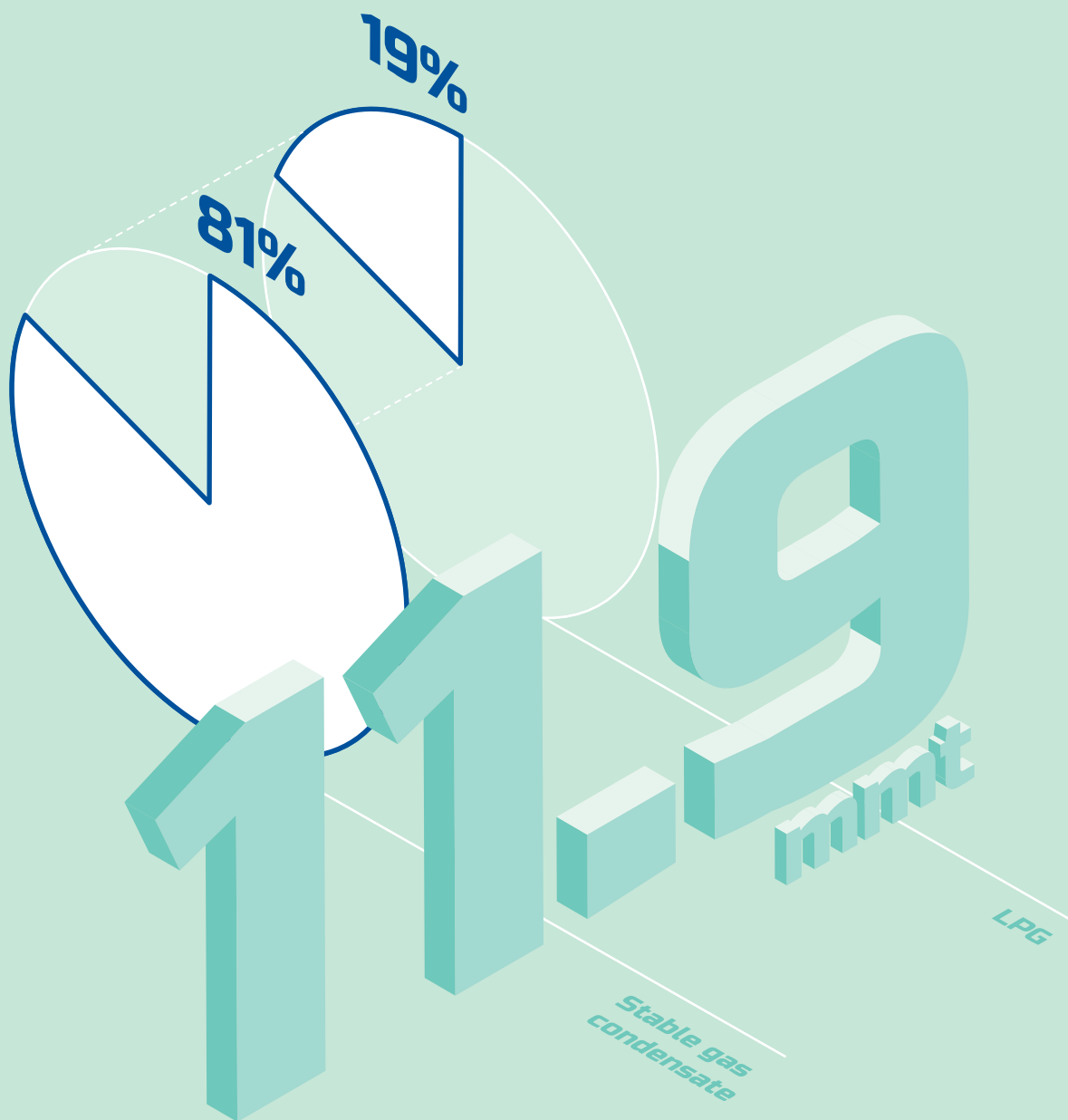


7.7

BCM PER ANNUM —
NATURAL GAS
PRODUCTION CAPACITY

FULL UTILIZATION OF PROCESSING CAPACITIES

Due to growth in gas condensate production volumes, in June 2015 the Purovsky Plant reached full utilization of its processing capacity of more than twelve (12) mmt on an annualized basis. Stable gas condensate production growth at the Purovsky Plant enabled us to fully utilize processing capacity of the Ust-Luga Complex.



**11.9 MMT –
MARKETABLE PRODUCT
OUTPUT OF THE
PUROVSKY PLANT
IN 2015**

THE UST-LUGA COMPLEX

The Ust-Luga Complex fractionates stable gas condensate into light and heavy naphtha, jet fuel, diesel, and fuel oil. In March 2015, the facility reached its full processing capacity of approximately 7 mmt on an annualized basis.

High value-added petroleum products produced at the Ust-Luga Complex have a significant positive impact on the profitability of our liquid hydrocarbon sales and the Company's cash flow generation.



1

FINISHED PRODUCTS AND FEEDSTOCK STORAGE TANKS

Twenty one vertical steel tanks equipped with pontoons with the total capacity of 520,000 cubic meters.
Height – from 15 to 18 m.
Diameter – from 21 to 46 m.

2

LOADING BERTHS NO. 1 AND NO.2

Each berth has 8 standers, 7 of which are 400 mm in diameter and 1 stander designed for loading heating oil, 300 mm in diameter. The maximum cargo deadweight is 142,000 tons. Maximum speed of loading – 8,000 cm per hour. Water depth at the berths is 17 m.

3

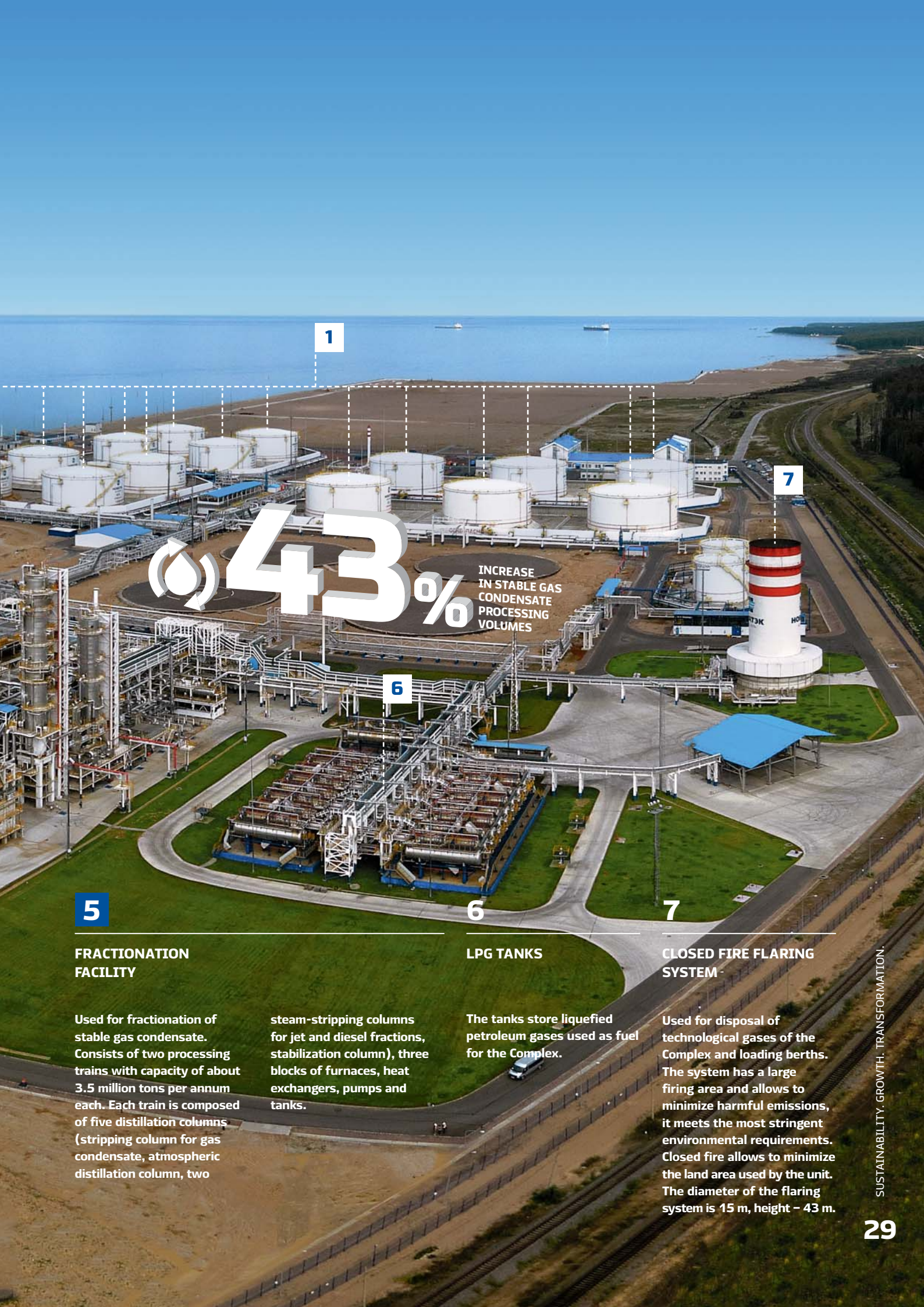
METERING STATION

Includes individual metering lines for each product. Performance of a single line is from 400 to 8,000 cubic meters per hour (light products), and from 200 to 2,400 cubic meters per hour (dark products).

4

AIR COMPRESSION STATION

The station compresses air used to control pneumatic valves of the plant.



43%

INCREASE
IN STABLE GAS
CONDENSATE
PROCESSING
VOLUMES

1

7

6

5

6

7

FRACTIONATION FACILITY

Used for fractionation of stable gas condensate. Consists of two processing trains with capacity of about 3.5 million tons per annum each. Each train is composed of five distillation columns (stripping column for gas condensate, atmospheric distillation column, two

steam-stripping columns for jet and diesel fractions, stabilization column), three blocks of furnaces, heat exchangers, pumps and tanks.

LPG TANKS

The tanks store liquefied petroleum gases used as fuel for the Complex.

CLOSED FIRE FLARING SYSTEM

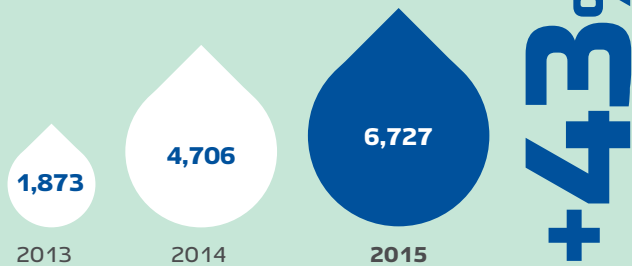
Used for disposal of technological gases of the Complex and loading berths. The system has a large firing area and allows to minimize harmful emissions, it meets the most stringent environmental requirements. Closed fire allows to minimize the land area used by the unit. The diameter of the flaring system is 15 m, height – 43 m.

UST-LUGA STABLE GAS CONDENSATE FRACTIONATION COMPLEX

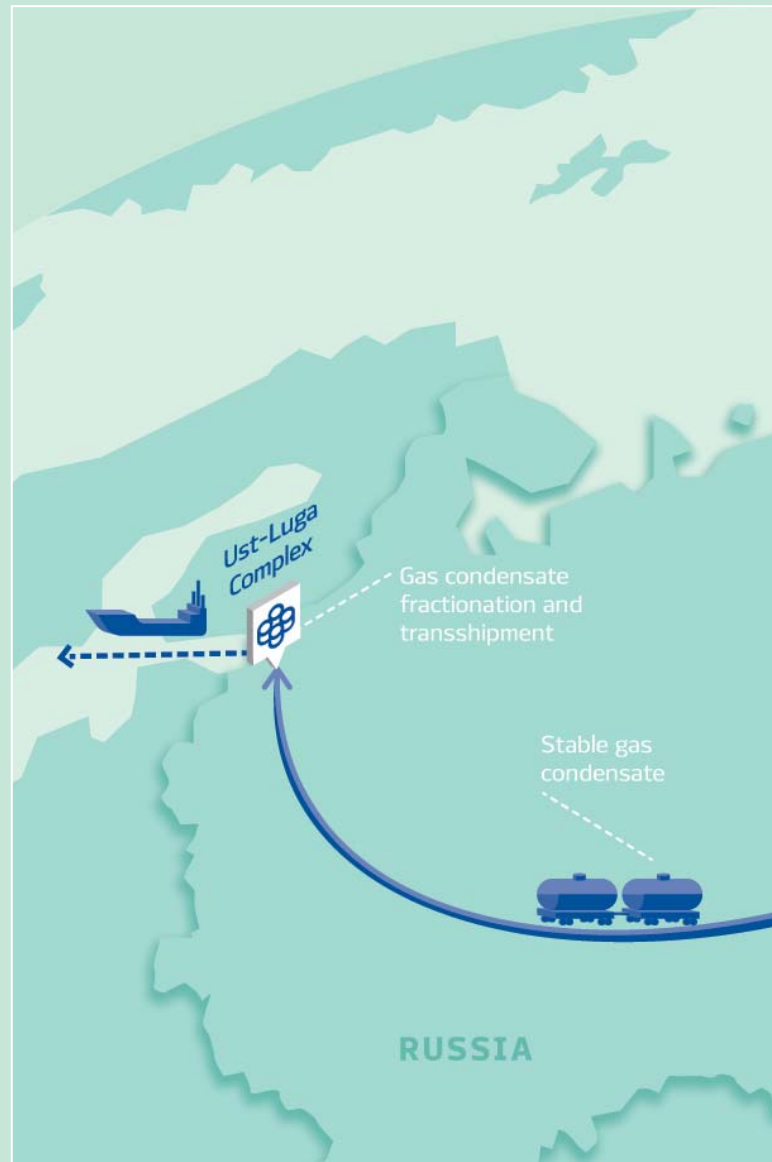
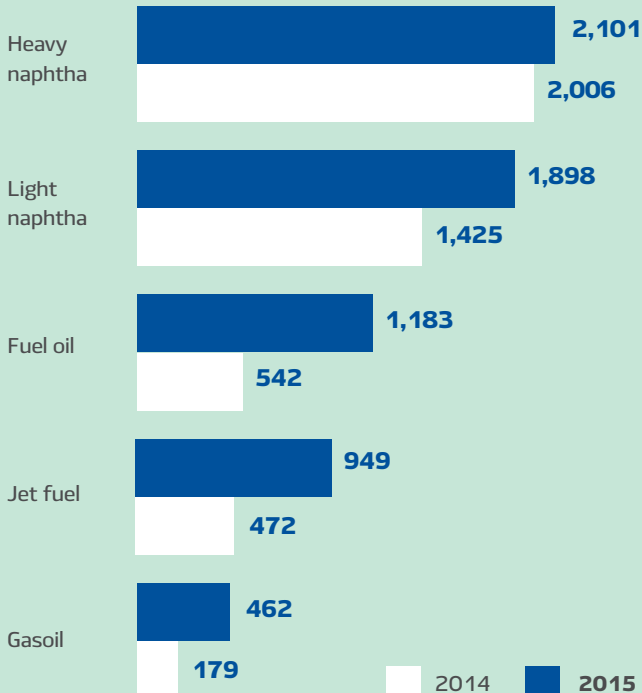
IN 2015, THE UST-LUGA COMPLEX REACHED FULL UTILIZATION OF ITS PROCESSING CAPACITY OF APPROXIMATELY SEVEN (7) MMT ON AN ANNUALIZED BASIS. HIGH VALUE-ADDED PRODUCTS PRODUCED AT THE UST-LUGA COMPLEX HAVE A SIGNIFICANT POSITIVE IMPACT ON THE COMPANY'S CASH FLOW GENERATION.

The Gas Condensate Fractionation and Transshipment Complex located at the port of Ust-Luga on the Baltic Sea processes stable gas condensate into high value-added products like light and heavy naphtha, jet fuel, fuel oil and gasoil. Finished products are shipped to international markets and stable gas condensate is transhipped to exports. The Complex expands our vertically integrated chain, positively impacts the unit profitability of our liquids sales, widens the variety of products and allows to diversify our customer base.

Stable gas condensate processing volumes, mt



Commercial output, mt



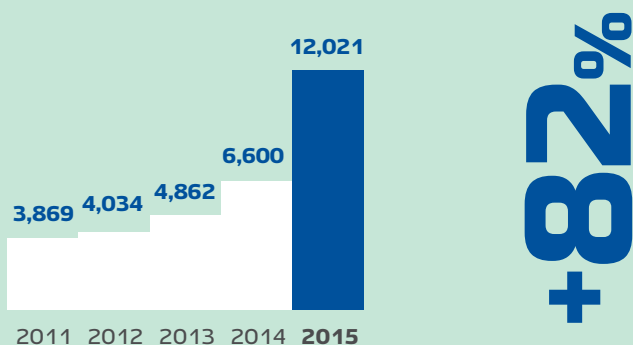
PUROVSKY GAS CONDENSATE STABILIZATION PLANT

AS A RESULT OF LAUNCHES OF NEW FIELDS, IN JUNE 2015 THE PUROVSKY PLANT REACHED FULL UTILIZATION OF ITS PROCESSING CAPACITIES AMOUNTING TO MORE THAN 12 MMT OF UNSTABLE GAS CONDENSATE ON AN ANNUALIZED BASIS.

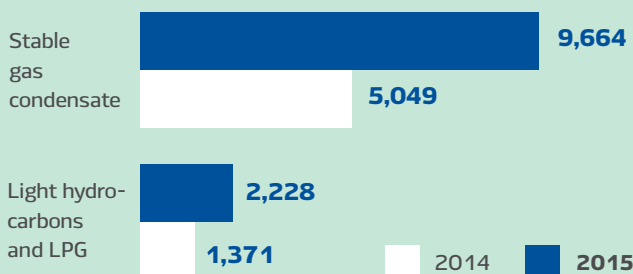
The Purovsky Plant is the integral element in our vertically-integrated production value chain that enables us to process all the volumes of de-ethanized gas condensate produced at our field into stable gas condensate and light hydrocarbons (feedstock for LPG production). Most of the stable gas condensate volumes are delivered by rail to the Ust-Luga Complex for further processing, light hydrocarbons are delivered by pipeline to SIBUR's Tobolsk Petrochemical Complex for further processing.



Unstable gas condensate processing volumes, mt



Commercial output, mt



LEGEND

- █ Railway transportation to Ust-Luga
- - - Sea transportation from Ust-Luga
- █ Light hydrocarbons transportation by pipeline
- █ Transportation by condensate pipeline

GROWTH OF LIQUID HYDROCARBONS SHARE IN REVENUES

Due to significant growth in liquid hydrocarbon production and processing volumes, their share in our total revenues reached 53%, representing an increase of 18 percentage points as compared to 2014. This share exceeded 50% for the first time in the Company's corporate history.



**82% (OR BY 5.8 MMT)
INCREASE IN THE SALES
VOLUMES OF LIQUID
HYDROCARBONS IN 2015**

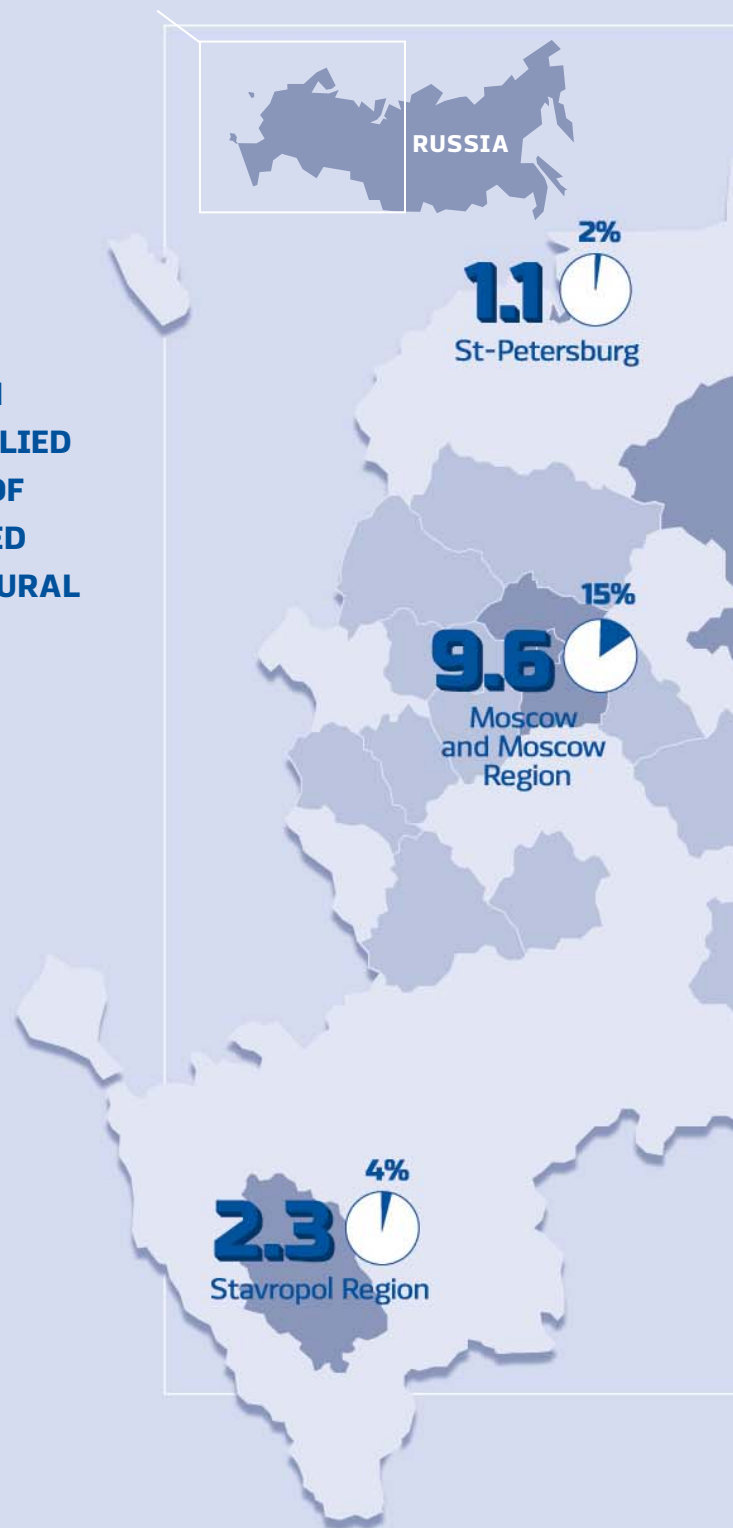
NATURAL GAS SALES

NOVATEK PLAYS AN IMPORTANT ROLE IN SUPPLIES OF NATURAL GAS TO THE RUSSIAN DOMESTIC MARKET. DURING 2015, WE SUPPLIED NATURAL GAS TO 33 CONSUMING REGIONS OF THE RUSSIAN FEDERATION AND CONTRIBUTED APPROXIMATELY 20% TO THE OVERALL NATURAL GAS SUPPLIES TO THE DOMESTIC MARKET.

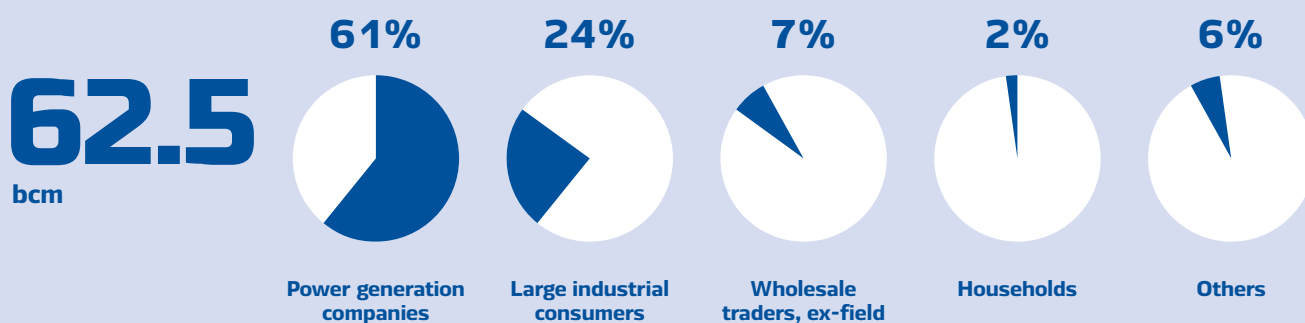
NOVATEK's 2015 natural gas sales volumes totalled 62.5 bcm, representing a decrease of 7.1% as compared to 2014 sales volumes of 67.2 bcm. Lower natural gas sales volumes resulted from one of our major customers temporarily not taking its full contracted volumes due to technical reasons and warmer weather in the Russian Federation in 2015 as compared to 2014.

Our total revenues from natural gas sales totalled RR 222.2 billion, which is 3.6% lower as compared to 2014. The negative effect from the lower sales volumes on our total revenues was partially offset by the growth in regulated domestic tariffs by 7.5% effective from 1 July 2015. Our net revenues from gas sales (excluding transportation costs) demonstrated a minor decline of 1.3% as gas transportation tariff for independent producers increased from 1 July 2015 by only 2%.

During the reporting year, NOVATEK concluded several major domestic natural gas supply contracts. In particular, five-year contracts were signed with NLMK Group and three-year contract was concluded with Enel Russia. We also extended our gas supply contract with Mosenergo.

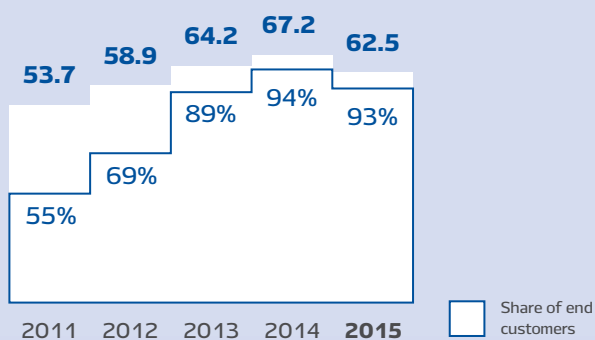


2015 natural gas sales volumes breakdown by customers





Natural gas sales volumes, bcm



LEGEND

- Main regions (with sales volumes above 1 bcm each)
- Other regions of gas sales (about 3.0 bcm in 2015)
- 62.5** 2015 natural gas sales volumes, bcm
- Share of end customers
- 22% % of total gas sales by NOVATEK

LIQUID HYDROCARBON SALES

NOVATEK SELLS LIQUID HYDROCARBONS (STABLE GAS CONDENSATE, PETROLEUM PRODUCTS, LIGHT HYDROCARBONS, LPG AND CRUDE OIL) DOMESTICALLY AND INTERNATIONALLY. WE STRIVE TO RESPOND QUICKLY TO CHANGING MARKET CONDITIONS BY OPTIMIZING THE CUSTOMER BASE AND SUPPLY GEOGRAPHY, AS WELL AS DEVELOPING AND MAINTAINING OUR OWN LOGISTICS INFRASTRUCTURE.

2015 liquids sales volumes breakdown, mt

1% 99%



Ust-Luga products

6,693

47% 53%



Stable gas condensate

2,786

65% 35%



Crude oil

1,090

76% 24%



LPG and light hydrocarbons

2,306

Domestic market

Exports



European market



Total sales volumes of liquid hydrocarbons in 2015 aggregated 12,888 thousand tons, representing an 82% increase over 2014 volumes. The record high growth rate is due to higher gas condensate production volumes and higher processing volumes at the Purovsky Plant and the Ust-Luga Complex, as well as to increase in crude oil production. Our export sales of liquids grew by 70% year-on-year to 9,004 thousand tons.

High value-added petroleum products from the Ust-Luga Complex accounted for 52% share of our overall liquids sales volumes. Export sales of stable gas condensate were resumed in March 2015 after the Ust-Luga Complex reached full capacity utilization.

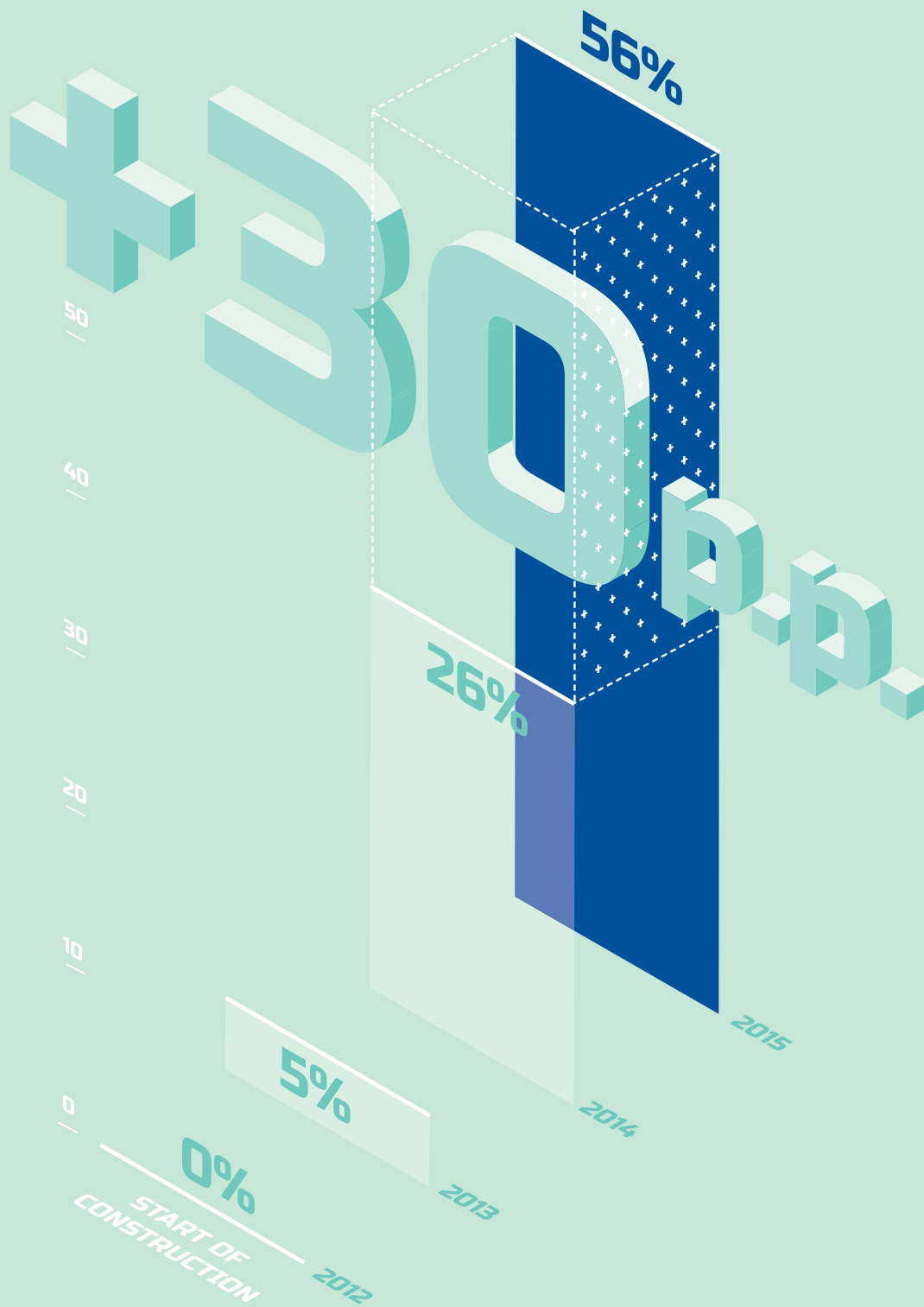
Our liquids sales revenues increased to RR 249.8 billion, or by 2 times as compared to 2014, mainly driven by much higher sales volumes as well as the growth in average prices in rouble terms due to higher US dollar to Russian rouble exchange rate and lower export duty rates. Liquid revenues exceeded revenues derived from natural gas for the first time in our corporate history.

LEGEND

- Liquids export countries
- Russia

SIGNIFICANT PROGRESS AT THE YAMAL LNG PROJECT

At year-end 2015, 41 production wells were drilled at the South-Tambeyskoye field, representing approximately 70% of the well stock required to launch the first production train of the LNG plant. Long-lead items, including the LNG plant modules, began arriving to Sabetta in September 2015. Among the items delivered as of the year end there is full equipment package for compressor lines of the plant's first and second trains, the cryogenic heat exchanger, the first seven plant modules, a number of pipe rack modules, power plant turbines and other pieces of equipment. Installation of the equipment on prepared foundations started.



**BY 30 P.P. INCREASED
COMPLETION OF THE
FIRST LNG TRAIN IN 2015**

1**PLANT BACK-UP HEATER**

Capacity - 85 MW. The back-up heater will be used to ensure uninterrupted operations of the heating, ventilation and air conditioning systems of the LNG plant.

2**POWER PLANT**

Capacity - 376 MW (eight gas turbine units of 47 MW capacity each). Will be used for power and heat generation for the LNG plant. Will be fueled by pre-treated gas produced at the field.

3**MAIN ELECTRICAL SUBSTATION**

Is a part of the power transmission and distribution system.

Length - 89 m; width - 35 m; height - 15 m.

4**WESTERN INTERCONNECTING PIPE RACK**

Designed for gas transportation from inlet facilities to the technological trains of the LNG plant.

The pipe rack consists of modules bearing pipelines, communication cables and power lines.

1**2****3****4**

YAMAL LNG PROJECT PLAN

1. Plant back-up Heater
2. Power Plant
3. Main electrical substation
4. West Interconnecting Pipe Rack
5. SPP Assembly Shop
6. Sea Port
7. LNG tanks
8. Train 3
9. Plant support facilities
10. Train 2
11. Boil-off gas compressor
12. Inlet facilities
13. Train 1
14. Condensate storage area
15. Living area and support facilities
16. Flare system
17. Fractionation facility
18. Refrigerant storage area
19. Northwestern ice barrier
20. Southeastern ice barrier
21. LNG loading berth No. 1
22. LNG and stable gas condensate loading berth No. 2

5

SPP ASSEMBLY SHOP

The shop is used for the assembly of site-prefabricated pipe rack modules (SPP) which are then transported and installed at their design location.

6

SEA PORT

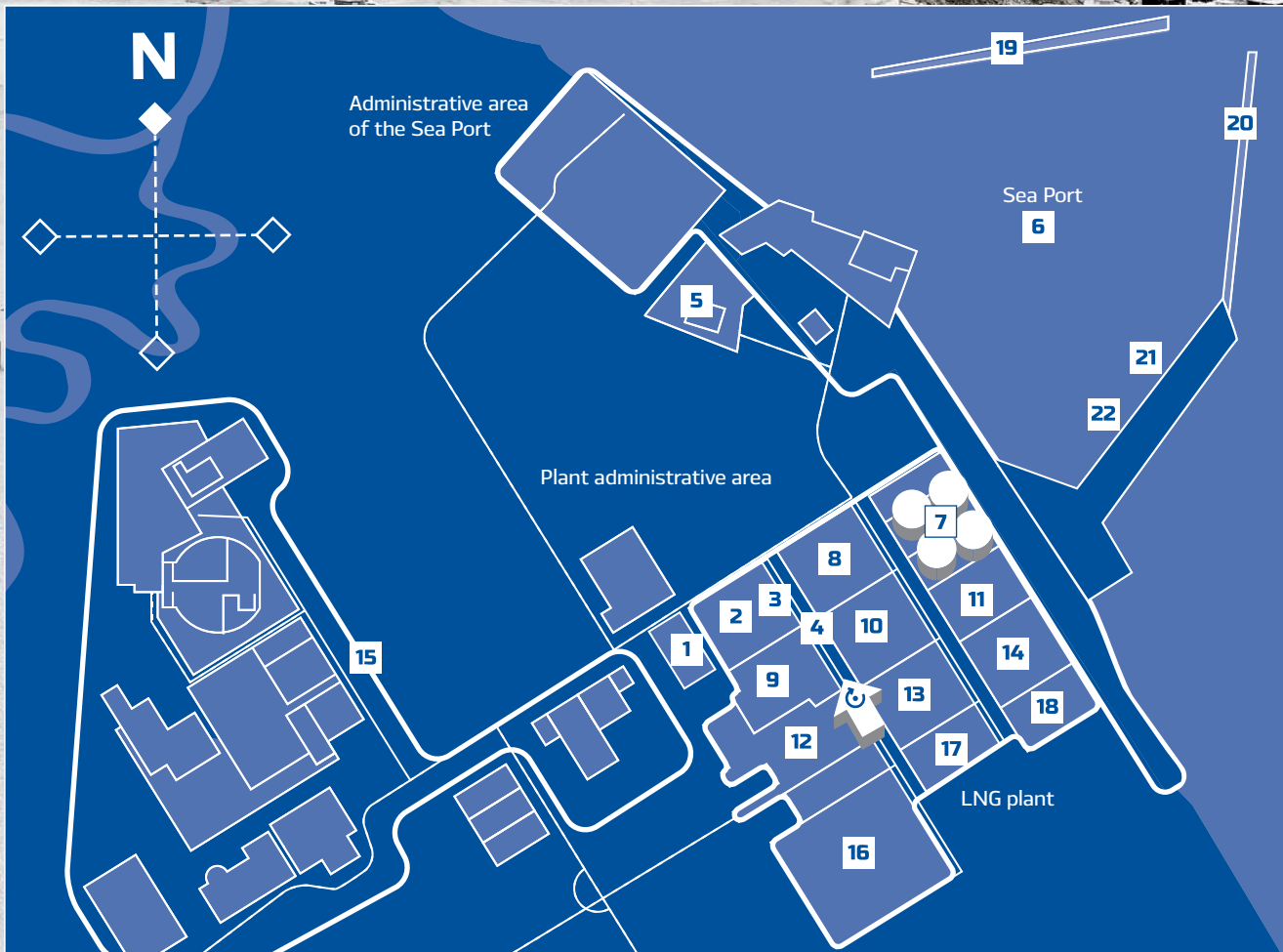
The port is used for the year-round delivery of construction cargo, steel structures and equipment for the LNG Plant, and will be used for shipment by sea tankers of LNG and gas condensate to exports.

7

LNG TANKS

Four tanks with 160,000 cubic meters capacity each. Diameter – 90 m; height – 50 m. Will be used for storing LNG at minus 164°C before further loading into LNG carriers.

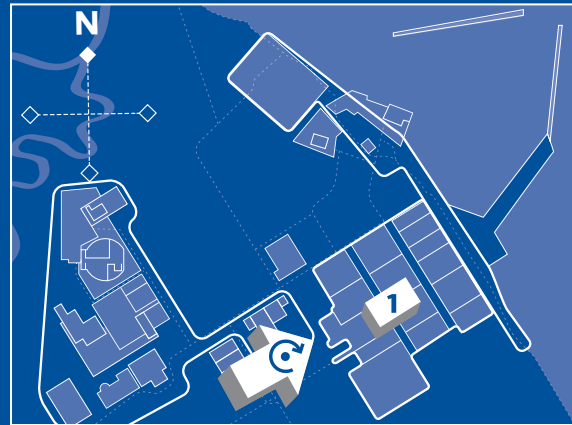
Two tanks for the first liquefaction Train, one tank for each of the second and third liquefaction trains.



MODULAR APPROACH

Modular approach was selected for the LNG plant construction. The LNG plant will consist of 173 large plant modules with the weight ranging from 85 tons to 6,400 tons. The modules are built at contractors' yards and delivered to the Sabetta construction site by sea.

In September 2015 the first module was delivered to Sabetta which is a part of the pipe rack of the first technological train. The module's height – 37 m, width – 41 m, length – 27 m, weight – 1,440 tons.



2

PILING FOUNDATION FOR THE INLET FACILITIES

The inlet facilities will be used for gas preparation for the LNG plant and gas condensate stabilization for export deliveries.

3

MIXED/PROPANE REFRIGERANT COMPRESSORS OF THE FIRST TRAIN

A key element of the liquefaction process – used for compression and transmission of the refrigerant during the process of natural gas cooling and liquefaction.

4

SOUTHEASTERN ICE BARRIER

The ice barrier is part of the Sabetta sea port and is designed for protection of the berths and port operations from the negative impact of ice. A loading pipe rack is being constructed on the Southeastern ice barrier which is designed for transporting of commercial LNG and stable gas condensate from the reservoirs to the tanker loading berths.



YAMAL LNG PROJECT

**AS OF THE END 2015,
CONSTRUCTION OF THE LNG
PLANT'S FIRST TRAIN UNDER
YAMAL LNG PROJECT WAS MORE
THAN 56% COMPLETE**

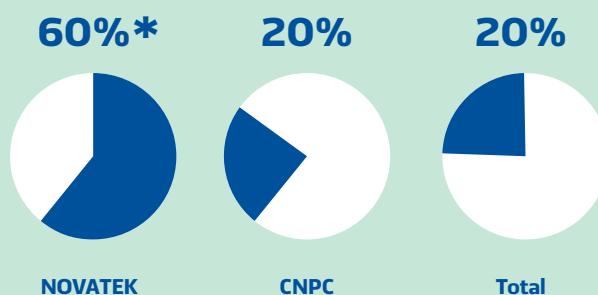
Yamal LNG is the flagship project in NOVATEK asset portfolio and is considered a transformational move for the Company into the international gas market. Yamal LNG envisages the construction of an LNG liquefaction plant with annual capacity of 16.5 million tons per annum, utilizing the prolific feedstock resources of the South-Tambeyskoye field located in the Northeast of the Yamal Peninsula. The launch of the first LNG train is planned for 2017.

As of 31 December 2015, the South-Tambeyskoye field was estimated to contain 522 bcm of proved natural gas reserves and 15 mmt of proved liquid hydrocarbon reserves, under the SEC reserves methodology. The field development plan provides for the drilling of 208 wells at 19 well drilling pads, with production potential exceeding 27 bcm of natural gas and one (1) million tons of stable gas condensate per annum.

At year-end 2015, 41 production wells were drilled at the South-Tambeyskoye field, representing approximately 70% of the well stock required to launch the first production train of the LNG plant.

The LNG plant will consist of 173 plant modules with the weight ranging from 85 tons to 6,400 tons. The modules are built at contractors' yards and delivered to the Sabetta construction site by sea. Approximately 25,000 people were involved in modules fabrication for the Yamal LNG project at different construction yards.

Shareholders of Yamal LNG as of 31.12.15



The plant's first module was delivered to the site in September 2015, and delivery of other long-lead items also started during the past year. Among the items delivered to the Sabetta construction site by the end of the year there were seven (7) LNG plant modules, a cryogenic heat exchanger (key element of gas liquefaction technology) and the full equipment package for compressor lines of the plant's first and second trains, boil-off gas compressors, a backup heater, 46 packages of steel work pipe racks, six (6) packages of piping spools, power plant turbines and other equipment. The unloading operations for oversized equipment in the Sabetta port and its transportation to the installation site were successfully streamlined.

By the end of the reporting year, over 20,000 foundation piles for the LNG plant were installed, over 2,000 pile caps were installed on the piles, and more than 17,000 cubic meters of concrete was poured for the foundation. Compressor equipment for the first train, seven (7) modules and the backup heater were installed on the prepared concrete foundations, as well as over 6,000 tons of steel work pipe racks. The construction of a power plant with a rated capacity of 376 MW was underway: four (4) gas turbine units with a capacity of 47 MW each were installed on the concrete foundations. The outer concrete walls were completed as well as the installation of the roof on the project's four (4) LNG tanks, and the work on installing the internal multi-layer walls was underway.

* Binding definitive agreements were signed in December 2015 for selling a 9.9% equity stake in the Yamal LNG project to China's Silk Road Fund.

Proved and probable reserves of the South-Tambeyskoye field under PRMS




 **926** bcm of gas




 **30** mmt of liquid hydrocarbons




Possible routes of LNG transportation from the Yamal peninsula



LEGEND

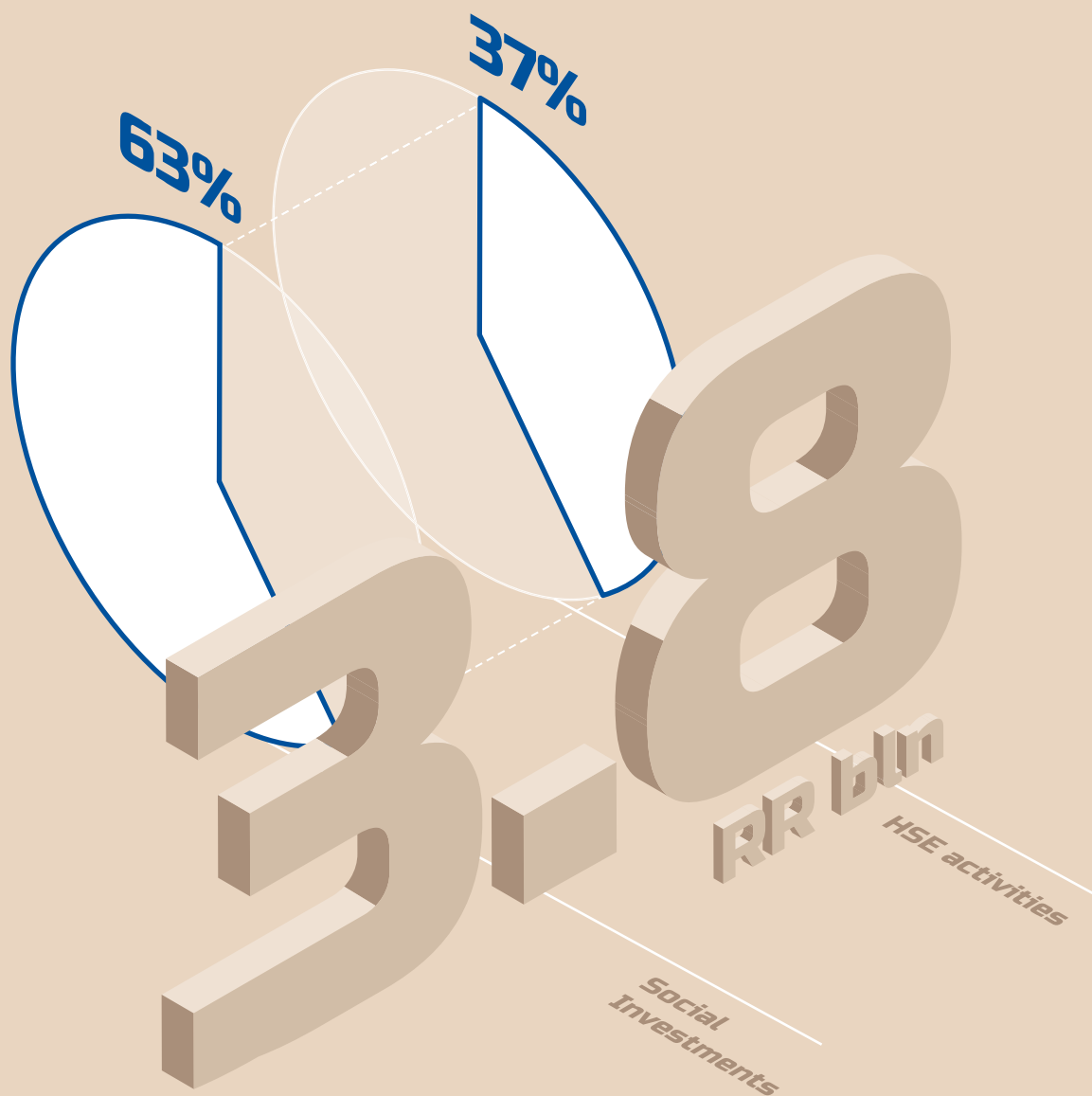
-  Latin America
-  Europe
-  Asian-Pacific Countries (summer route)

-  Asian-Pacific Countries (winter route)
-  12 Number of travel days
-  Transshipment in Europe

-  Port of Sabetta
-  South-Tambeyskoye field
-  Other NOVATEK license areas

HIGH LEVEL OF ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

NOVATEK adheres to the highest standards of social responsibility and is committed to environmental integrity and industrial safety as well as supporting the regional development in the Far North of Russia, where Company's core operational assets are located.



**RR 3.8 BLN OF
SOCIAL INVESTMENTS
AND EXPENSES ON HSE
IN 2015**

HSE AND SOCIAL RESPONSIBILITY

NOVATEK ADHERES TO THE PRINCIPLES OF EFFECTIVE AND RESPONSIBLE BUSINESS CONDUCT AND CONSIDERS THE WELFARE OF ITS EMPLOYEES AND THEIR FAMILIES, ENVIRONMENTAL AND INDUSTRIAL SAFETY, THE CREATION OF A STABLE AND BENEFICIAL SOCIAL ENVIRONMENT AS WELL AS CONTRIBUTING TO RUSSIA'S OVERALL ECONOMIC DEVELOPMENT AS PRIORITIES AND RESPONSIBILITIES OF THE COMPANY.

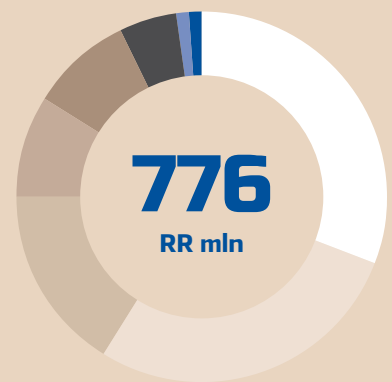
NOVATEK's core producing assets are located in the Far North, a harsh Arctic region with vast mineral resources and a fragile and vulnerable eco-environment. Throughout all of its operations the Company is committed to environment protection. In 2015 environmental expenditures of NOVATEK, its subsidiaries and joint ventures aggregated RR 776 mln.

NOVATEK has implemented a corporate-wide Health, Safety and Environmental ("HSE") Policy and all of the Company's principal subsidiaries and joint ventures operate an Integrated Health, Safety and Environment Management System (IMS), which comply with the international ISO 14001:2004 and OHSAS 18001:2007 standards. In 2015, NOVATEK successfully passed another IMS compliance audit.

As part of our HSE activities we pay special attention to preventive measures. In particular, the environmental aspects are taken into account in designing new production facilities: cutting-edge technology and equipment are used to considerably reduce the adverse environmental impact and risk of environmental accidents. The Company builds new and upgrades its existing waste disposal sites, equips its facilities with state-of-the-art drilling waste treatment units, sets up new sewage treatment facilities and revamps older ones.

All of NOVATEK's subsidiaries and joint ventures conduct periodic safety training and briefings; personnel training and development programs are offered, among others, by specialized training centers; knowledge assessment is implemented on a regular basis.

Environmental Expenditures in 2015



- 31%** Soil protection
- 28%** Environmental protection against production and consumption waste
- 16%** Compensation payments
- 9%** Protection and use of water resources
- 9%** Environmental monitoring and evaluation of the background
- 5%** Subsurface protection
- 1%** Environmental management
- 1%** Atmospheric air protection

665

RR mln expenses on Occupational Health and Safety in 2015

NOVATEK's personnel structure as of 31.12.15



7,265 people — headcount of NOVATEK and its subsidiaries as of 31.12.15

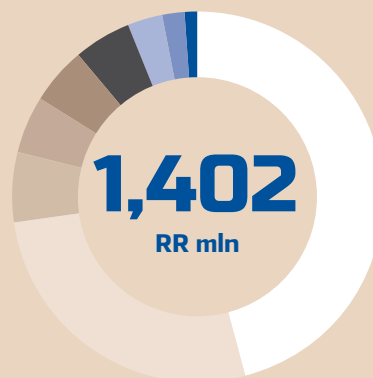
- 40%** Exploration and production
- 27%** Transportation and marketing
- 18%** Processing
- 9%** Administrative personnel
- 6%** Power supply

Workplace certification includes evaluating measures to control the harmful impact of hazardous factors in the workplace.

The Company's human resource management system is based on the principles of fairness, respect, equal opportunities for

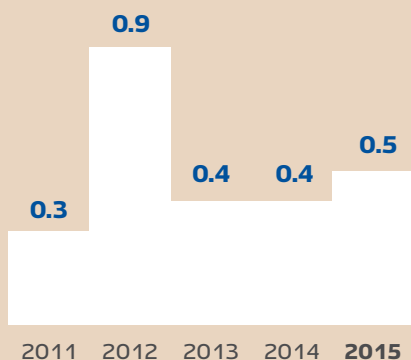
professional development, dialogue between management and employees, as well as continuous, comprehensive training and development opportunities for the Company's employees at all levels.

Social Expenditures on employees in 2015



- 46%** Repayable Financial Aid Program
- 27%** Targeted Compensation and Socially Important Payments
- 6%** Voluntary Medical Insurance
- 5%** State Guarantees Support Program
- 5%** Health Resort Treatment and Rehabilitation
- 5%** Culture and sports
- 3%** Pension Program
- 2%** NOVATEK-Veteran Program
- 1%** Others

Injury frequency rate (number of injuries per million working hours)



6 comprehensive inspections of NOVATEK subsidiaries for occupational health, industrial, fire and environmental safety requirements in 2015

1,078 operating workplaces were certified in 2015

4,324 employees underwent HSE training courses in 2015

MANAGEMENT AND CORPORATE GOVERNANCE

THE BOARD OF DIRECTORS MEMBERSHIP AS OF 31 DECEMBER 2015

THE COMPANY HAS ESTABLISHED AN EFFECTIVE AND TRANSPARENT SYSTEM OF CORPORATE GOVERNANCE COMPLYING WITH BOTH RUSSIAN AND INTERNATIONAL STANDARDS. NOVATEK'S SUPREME GOVERNING BODY IS THE GENERAL MEETING OF SHAREHOLDERS. THE CORPORATE GOVERNANCE SYSTEM ALSO INCLUDES THE BOARD OF DIRECTORS, THE BOARD COMMITTEES, AND THE MANAGEMENT BOARD, AS WELL AS THE SYSTEM OF INTERNAL CONTROL AND AUDIT BODIES.

3

INDEPENDENT
BOARD
MEMBERS*



MR. ROBERT CASTAIGNE

Born in 1946

- Independent Director
- Member of the Audit Committee
- Member of the Remuneration and Nomination Committee



MR. VICTOR P. ORLOV

Born in 1940

- Independent Director
- Chairman of the Remuneration and Nomination Committee
- Member of the Audit Committee



MR. ANDREI V. SHARONOV

Born in 1964

- Independent Director
- Chairman of the Audit Committee
- Member of the Remuneration and Nomination Committee

* Independent Director as of 31 December 2015 in accordance with the Corporate Governance Code recommended by the Central Bank of Russia and the UK Combined Code on Corporate Governance.



MR. ALEXANDER E. NATALENKO

Born in 1946

- Chairman of the Board of Directors
- Chairman of the Strategy Committee



MR. LEONID V. MIKHELSON

Born in 1955

- Chairman of the Management Board



MR. ANDREI I. AKIMOV

Born in 1953

- Member of the Strategy Committee



DR. BURCKHARD BERGMANN

Born in 1943

- Member of the Strategy Committee



MR. MICHAEL BORRELL

Born in 1962

- Member of the Strategy Committee



MR. GENNADY N. TIMCHENKO

Born in 1952

- Member of the Strategy Committee

REVIEW OF OPERATING RESULTS

LICENSES

NOVATEK's fields and license areas are located in the YNAO of the Russian Federation, which is one of the world's largest natural gas producing regions and accounts for approximately 80% of Russian natural gas production and 16% of global natural gas production. The concentration of the Company's producing and prospective fields, license areas and processing facilities in this prolific gas-producing region combined with the Region's vast oil and gas infrastructure have allowed NOVATEK to minimize the risks associated with developing its assets and expanding its hydrocarbon resource base. The Company has over 20 years of operational experience working in the YNAO, enabling us to effectively capitalize on growth opportunities to increase shareholder value.

Exploration and production of hydrocarbons in Russia is subject to State licensing regulations. As of 31 December 2015, our subsidiaries and joint ventures held 31 licenses for fields and license areas, of which 29 are classified as either production or combined exploration and production licenses and two (2) are classified as exploration licenses. The duration of licenses for our core fields exceeds 15 years: the license for the Yurkharovskoye field is valid until 2034, the East-Tarkosalinskoye field expires in 2043, the South-Tambeyskoye field in 2045, and the Samburgsky license area of Arcticgas in 2034. The license for the Termokarstovoye field was extended to 2097 in 2015 (before extension the license was valid through 2021), while the license for the Olimpiyskiy area is now valid through 2059 (previously through 2026).

NOVATEK is strictly observing all of its license obligations pursuant to current Russian legislation, and conducts continuous monitoring of license tenders in order to expand its resource base in strategically important regions.

HYDROCARBON RESERVES

Most of the Company's reserves are located onshore or can be developed from onshore locations and are attributed to the conventional hydrocarbon categories (capable of being exploited using conventional technologies, in contrast to unconventional gas deposits such as shale gas or coal-bed methane).

The Company's reserves are appraised on an annual basis by independent petroleum engineers, "DeGolyer and MacNaughton" ("D&M"), under both the SEC and PRMS reserve reporting standards.

As of 31 December 2015, NOVATEK's SEC proved reserves, including the Company's proportionate share in joint ventures, aggregated 12,817 mmmboe, including 1,775 bcm of natural gas and 143 mmt of liquid hydrocarbons. Despite the continued price decline for benchmark crude oil prices on the international hydrocarbon market, the Company's proved reserves increased by 1.4% compared to year-end 2014*, and our reserve replacement rate was 133%. At year-end 2015, the Company's reserve to production ratio (or R/P ratio) was 25 years.

The reserves growth during the reporting period was affected by the decrease in the Company's proportional share in the Arcticgas joint venture from 54.9% as at year-end 2014 to 53.3% as at 31 December 2015 resulting from the execution of an agreement with Gazprom Neft on the gradual alignment of the ownership structure in Arcticgas to parity. Excluding this effect, the proved reserves grew by 2.0%, with an organic reserve replacement of 148% due to successful exploration works and drilling, which amounted to reserves addition of 774 million boe, inclusive of 2015 production. The primary contributors to additions were our successful ongoing exploration and development

* Proved reserves as at the end 2014 have been adjusted to include 100% of the Yarudeyskoye field reserves (previously accounted for on a 51% basis).

efforts at the Utrenneye, the North-Russkoye and the South-Tambeskoye fields, as well as the Urengoyskoye field within the Samburgsky license area of Arcticgas.

Under the PRMS reserves reporting standards, the Company's total proved plus probable reserves, including our proportionate share in joint ventures, totalled 23,117 mmboe, which includes 3,152 bcm of natural gas and 298 mln tons of liquid hydrocarbons, and

represents an increase of 48 mmboe compared with year-end 2014.

The high quality of the reserve base enables NOVATEK to maintain its competitive position as one of the lowest cost producers in the global oil and gas industry. Our average 2015 and five-year (2011-2015) reserve replacement costs amounted to RR 127 (USD 2.1) per boe and RR 78 (USD 2.2) per boe, respectively.

Proved reserves under the SEC standards as of 31 December 2015 (based on our equity ownership interest in the respective fields) and duration of licenses

Field / license area	Ownership	Duration of license, year	Gas reserves, bcm	Liquids reserves, mln tons
TOTAL RESERVES	-	-	1,774.7	142.6
Yurkharovskoye	100%	2034	321.3	14.0
South-Tambeyskoye	60%	2045	312.9	9.2
Utrenneye	100%	2031	307.0	11.3
Urengoyskoye («Arcticgas»)	53.3%	2034	180.6	39.8
East-Tarkosalinskoye	100%	2043	148.8	18.6
Geofizicheskoye	100%	2034	125.6	0.4
North-Urengoyskoye	50%	2038	93.8	8.9
Yaro-Yakhinskoye	53.3%	2034	79.5	7.5
North-Russkoe	100%	2031	52.6	2.5
Samburgskoye	53.3%	2034	30.2	4.1
North-Chaselskoye	53.3%	the lifetime of the field	28.9	1.4
Khancheykoye	100%	2044	24.0	2.6
Olimpiyskiy license area	100%	2059	21.8	2.5
East-Tazovskoye	100%	2033	17.1	2.5
Termokarstovoye	51%	2097	15.2	4.3
Yarudeyskoye	51% (100% of reserves)	2029	6.5	12.8
Other	-	-	8.9	0.2

GEOLOGICAL EXPLORATION

NOVATEK aims to expand its resource base through geological exploration at fields and license areas not only in close proximity to existing transportation and production infrastructure, but also in new potentially prospective hydrocarbon areas. The Company ensures the efficiency of geological exploration work by deploying state-of-the-art technologies and relying on the experience and expertise of the specialists in our geology department, and the Company's Scientific and Technical Center located in Tyumen.

The Company uses a systematic and comprehensive approach to exploration and development of its fields and license areas, beginning with the collection and interpretation of seismic data to the creation of dynamic field models for the placement of exploration and production wells. We employ modern geological and hydrodynamic modelling as well as new well drilling and completion techniques to maximize the ultimate recovery of hydrocarbons in a cost effective manner.

In 2015, we continued full-scale exploration works at our license areas located on the Gydan Peninsula and offshore in the Gulf of Ob to properly assess the resource potential of this strategically important region. We started three-dimensional (3D) seismic studies at the North-Obskiy offshore license area and also conducted 3D seismic and exploration drilling works at the Utrenniy license area.

Exploration activities also continued at the fields and license areas in the Nadym-Pur-Taz region. Seismic studies were done at the North-Russkiy and Dorogovskiy license areas while exploration drilling was performed at the North-Russkiy and Malo-Yamalskiy areas, as well as at the Samburgskiy and Yevo-Yakhinskiy license areas of the Arcticgas JV.

We completed 1,004 square km of 3D seismic works in 2015. Exploration drilling (including drilling works at our joint ventures) totalled 15.2 thousand meters as well as completing the construction of five (5) prospecting and exploration wells. As a result, nine (9) new gas deposits were discovered at the Utrenneye, North-Russkoye and North-Chaselskoye fields and wet gas reserves were added at the Achimov deposits (very rich in gas condensate) of the Urengoyskoye field within the Samburgskiy and Yevo-Yakhinskiy license areas.

FIELD DEVELOPMENT

During 2015, NOVATEK's subsidiaries spent RR 56.6 billion on the development of hydrocarbon reserves as part of our capital investment program in order to achieve sustainable hydrocarbon production growth.

Production drilling in 2015, including joint ventures, reached 336 thousand meters, representing 44% less production drilling than in 2014. The decrease was anticipated due to the successful completion of the main drilling programs at the North-Urengoyskoye and Termokarstovoye fields, as well as a planned decline in drilling volumes at the Arcticgas fields. Drilling volumes increased at the Yurkharovskoye, Yarudeyskoye and South-Tambeyskoye fields.

A total of 107 wells were commissioned into operations, including 49 gas and gas condensate wells and 58 oil wells.

New facilities commissioned at producing fields

A new 2.5 MW gas turbine power plant was launched at the Yurkharovskoye field improving the field's reliability of power supply and achieving energy independence. We also actively developed the Cenomanian layer at the Yurkharovskoye field — eight (8) new production wells were drilled with average length of three

Exploration works

	Units	2014	2015	Change
3D SEISMIC	square km	828	1,004	21.3%
Subsidiaries	square km	730	1,004	37.5%
Joint ventures	square km	98	-	(100.0)%
EXPLORATION DRILLING	th. m	26.3	15.2	(42.2)%
Subsidiaries	th. m	19.3	9.6	(50.2)%
Joint ventures	th. m	7.0	5.6	(20.0)%

(3) km and vertical deviation of 2.4 km, achieving maximum initial flow rates of up to 2.2 mmcm of natural gas per day. As part of the Cenomanian development program we carried out construction of a 48 MW booster compressor station (BCS) during the reporting year.

At the East-Tarkosalinskoye field we continued our intensive drilling program by targeting the field's crude oil layers with 23 oil production wells completed during 2015. A pumping station with an initial water separation unit was launched to improve efficiency of intra-field oil transportation and treatment. Second phase of a BCS with 7.2 MW capacity was launched at the central part of the field.

A crude oil treatment facility was commissioned at the Khancheyskoye field as part of the field's oil development program. At year-end, 40 production wells were in operation at the field, including producing crude oil from 10 wells.

A condensate de-ethanization facility was commissioned at the Western Dome of the North-Urengoykoye field to optimize the field's production activities as we previously utilized Gazprom's de-ethanization facilities. The launching our own de-ethanization facility lowered processing costs and increased product output. Two (2) production wells were drilled at the field in 2015.

New fields commissioned in 2015

In April, we commissioned the Yaro-Yakhinskoye oil and gas condensate field (developed by Arcticgas, a joint venture between NOVATEK and Gazprom Neft). Natural gas and gas condensate is produced from the field's Valanginian layers. As of the end 2015, a total of 38 wet gas production wells were drilled at the field. The wells have horizontal sections of up to one km long and their initial daily flow rate is up to 1.2 mmcm of gas and 270 tons of gas condensate. The field's infrastructure also includes a gas gathering network, a gas treatment unit, and a gas condensate de-ethanization facility. The field reached its design production capacity of approximately 7.7 bcm of natural gas and more than 1.3 mmt of de-ethanized gas condensate on an annualized basis in June 2015.

In May, the Termokarstovoye gas condensate field was successfully launched ahead of schedule and is developed by Terneftegas, a joint venture between NOVATEK and TOTAL. The field achieved planned daily production levels equivalent to approximately 2.4 bcm of natural gas and 0.8 mmt of de-ethanized gas condensate per annum as early as June 2015. Natural gas and gas condensate are produced from the Jurassic layers, which were developed by horizontal wells with horizontal lengths of 1.2 to 2.0 km, with

initial daily flow rates of up to 700 mcm of natural gas and 240 tons of de-ethanized gas condensate. Twenty-two production wells were drilled at the field by year-end. The field infrastructure includes a gas gathering network, a gas treatment unit with adsorptive gas dehydration setting, as well as a gas condensate de-ethanization facility. A unique feature of the field is the low-temperature (-60°C) gas treatment process, involving adsorptive gas dehydration, gas expansion turbines and special low-temperature gas condensate de-ethanization columns. This unique treatment process doesn't require methanol and enhances extraction of liquid hydrocarbons, improving the field's economic efficiency.

In early December, commercial production started at the Yarudeyskoye oil field (NOVATEK holds a 51% share). The field ramped up to its full production capacity of approximately 3.5 million tons per annum, or 9,700 tons per day by the end of 2015, which is a very short period of time for full ramp up of a crude oil project. Only 21 wells were required to achieve these production flow rates. As of the end 2015, a total of 39 oil production wells were drilled at the field. The field's infrastructure also includes a central oil treatment facility, oil and gas gathering systems, a pumping station, and gas and crude oil pipelines. After treatment at the field, the crude oil is transported via our crude oil pipeline (approximately 350 km long) to Purpe, where it is injected into the trunk pipeline system operated by Transneft.

The Yarudeyskoye field is the largest oil asset in our portfolio and is characterized by unique geology, which combined with the application of state-of-the-art drilling and completion technologies allowed us to achieve the average production flow rate of more than 400 tons per day per well, with the potential flow rate of one of our most prolific wells exceeding 1,200 tons per day.

HYDROCARBON PRODUCTION

In 2015, NOVATEK carried out commercial hydrocarbon production at 13 fields. Marketable production from all fields (including the Company's share in production of joint ventures) amounted to 521.6 mmboe, representing an increase of 14.2% over the prior year.

Total marketable production of natural gas including the Company's share in production of joint ventures aggregated 67.91 bcm, representing 85.1% of our total hydrocarbon output. The share of gas produced from the gas condensate bearing layers (or "wet gas") in proportion to total gas production was 82.5%. As a result, our marketable natural gas production increased by 9.3% or by 5.8 bcm, as compared to 2014 volumes.

Marketable production of liquid hydrocarbons including the Company's share in production of joint ventures totalled 9,094 thousand tons, of which 83% was unstable de-ethanized gas condensate and the remaining 17% consisted of crude oil. Marketable production of liquids increased by 50.7%, or by 3,058 thousand tons as compared with 2014, with gas condensate production demonstrating a 54.6% increase to 7,526 thousand tons and crude oil production growing by 34.2% to 1,568 thousand tons. We achieved record levels of liquids production in 2015, and their share in our overall production increased by four percentage points as compared to 2014 and amounted to 15%.

Our record growth in gas condensate production and the higher natural gas output was mainly due to the successful launches of the third stage of the Samburgskoye field, the Urengoyskoye field within the

Samburgskoye license area and the North-Khancheykoye field in 2014, as well as the launch of the Yaro-Yakhinskoye and Termokarstovoye fields in the first half 2015.

The increase in our crude oil production was due to production drilling at the East-Tarkosalinskoye field and launch of the Yarudeyskoye field in early December 2015, which ramped up to its full production capacity of 9,700 tons of crude oil per day or 3.5 million tons per annum as early as the end of 2015. The successful launch and quick ramp up of the Yarudeyskoye field will have a major positive impact on our liquids production dynamics in 2016 as its crude oil production capacity is more than two (2) times higher compared to NOVATEK's overall crude oil production in 2015.

We continued to achieve some of the lowest lifting costs in the industry. The Company's lifting costs were RR 30.1 (USD 0.49) per boe in 2015.

Marketable hydrocarbon production (including share in production by joint ventures)

	Units	2014	2015	Change
TOTAL PRODUCTION	mmboe	456.7	521.6	14.2%
Gas	mmcm	62,129	67,905	9.3%
	mmboe	406.3	444.1	
Liquid hydrocarbons	mt	6,036	9,094	50.7%
	mmboe	50.4	77.5	

	Gas, mmcm			Liquids, mt		
	2014	2015	Change	2014	2015	Change
TOTAL	62,129	67,905	9.3%	6,036	9,094	50.7%
Yurkharovskoye (100%)	38,154	35,979	(5.7)%	2,496	2,126	(14.8)%
Arcticgas fields (54.9% until August 2015, 53.3% from August 2015)	4,129	12,624	205.7%	1,063	4,016	277.8%
East-Tarkosalinskoye (100%)	10,348	9,075	(12.3)%	1,293	1,365	5.6%
North-Urengoyskoye (50%)	5,402	5,395	(0.1)%	633	622	(1.7)%
Khancheykoye (100%)	2,933	2,510	(14.4)%	445	392	(11.9)%
Termokarstovoye (51%)	-	714	-	-	258	-
Yarudeyskoye (100%)	-	-	-	-	184	-
Other	1,163	1,608	38.3%	106	131	23.6%

YAMAL LNG PROJECT

Yamal LNG is the flagship project in NOVATEK asset portfolio and is considered a transformational move for the Company into the international gas market. Yamal LNG envisages the construction of an LNG liquefaction plant with annual capacity of 16.5 million tons per annum, utilizing the prolific feedstock resources of the South-Tambeyskoye field located in the Northeast of the Yamal Peninsula. The launch of the first LNG train is planned for 2017.

Yamal LNG is the operator of the project, the license holder and owner of all the assets. At year-end, the shareholder structure comprised NOVATEK (60%), Total (20%) and CNPC (20%). In December 2015, NOVATEK entered into a final binding agreement to sell a 9.9% share in Yamal LNG to the Silk Road Fund (SRF), a Chinese infrastructure investment fund. NOVATEK's share in the project will decrease to 50.1% after the deal is closed.

The South-Tambeyskoye field was discovered in 1974 and comprises five (5) shallow gas horizons and 37 deeper gas condensate horizons. The depth of the horizons varies from between 900 to 2,850 meters. The license for exploration and production at the South-Tambeyskoye field is valid until 2045.

As of 31 December 2015, the field was estimated to contain 522 bcm of proved natural gas reserves and 15 mmt of proved liquid hydrocarbon reserves, under the SEC reserves methodology. Based on total proved hydrocarbon reserves, the South-Tambeyskoye field is the largest field in NOVATEK reserves portfolio. According to the PRMS reserves standards, the proved and probable reserves of the South-Tambeyskoye field were appraised at 926 billion cubic meters of natural gas and 30 mmt of liquid hydrocarbons.

The South-Tambeyskoye field has already been thoroughly studied with a complex suite of exploration activities, including running 3D seismic and exploration drilling, creation of the fields' geological model and annual reserves appraised by the independent petroleum engineers, D&M. The field development plan provides for the drilling of 208 wells at 19 well drilling pads, with production potential exceeding 27 bcm of natural gas and one (1) million tons of stable gas condensate per annum.

Natural gas produced at the field will be delivered to the international markets as liquefied natural gas, or LNG, which requires the construction of a liquefaction plant consisting of three (3) production trains of 5.5 mmt annual capacity each. The shipping infrastructure will include a jetty with two tanker-loading berths at the port of Sabetta.

At year-end 2015, 41 production wells were drilled at the South-Tambeyskoye field, representing approximately 70% of the well stock required to launch the first production train of the LNG plant. Construction progress on the first train exceeded 56%.

At year-end, there were approximately 2,500 construction vehicles and 13,000 construction workers on site. In February 2015, the Sabetta Airport started servicing regular flights from Novy Urengoy, Moscow and Samara, which significantly improved the efficiency of shift workers logistics. Regular flights served approximately 130,000 people in 2015.

To minimise on site construction activities due to challenging climate conditions, a modular approach to the LNG plant construction was selected. The LNG plant will consist of 173 large plant modules with the weight ranging from 85 tons to 6,400 tons. The modules are built at contractor's yards and delivered to the Sabetta construction site by sea. Approximately 25,000 people were involved in modules fabrication for the Yamal LNG project at different construction yards.

The plant's first module was delivered to the site in September 2015, and delivery of other long-lead items also started during the past year. Among the items delivered to the Sabetta construction site by the end of the year there were seven (7) LNG plant modules, a cryogenic heat exchanger (key element of gas liquefaction technology) and the full equipment package for compressor lines of the plant's first and second trains, boil-off gas compressors, a backup heater, 46 packages of steel work pipe racks, six (6) packages of piping spools, power plant turbines and other equipment. The unloading operations for oversized equipment in the Sabetta port and its transportation to the installation site were successfully streamlined.

By the end of the reporting year, over 20,000 foundation piles for the LNG plant were installed, over 2,000 pile caps were installed on the piles, and more than 17,000 cubic meters of concrete was poured for the foundation. Compressor equipment for the first train, seven (7) modules and the backup heater were installed on the prepared concrete foundations, as well as over 6,000 tons of steel work pipe racks. The construction of a power plant with a rated capacity of 376 MW was underway: four (4) gas turbine units with a capacity of 47 MW each were installed on the concrete foundations. The outer concrete walls were completed as well as the installation of the roof on the project's four (4) LNG tanks, and the work on installing the internal multi-layer walls was underway.

In 2015, dredging was performed in the port harbor, approach and sea channels. Overall volumes of dredged sand totalled more than 16 million cubic meters. The year-round use of the Sabetta port received more than three (3) million tons of cargoes (up 50% year-on-year), delivered by 190 marine ships and 317 river barges. A two (2) km Southeastern ice barrier was being constructed to protect the port harbor. LNG and stable gas condensate shipment pipe rack was being built at the ice barrier.

More than 95% of the LNG plant output has been contracted on a long-term basis. Specially designed Arc7 ice-class LNG carriers will be used for LNG transportation, and the first tanker was placed from dry-dock into water in early 2016. In December 2015, the steel-cutting process for the second LNG tanker began.

PROCESSING OF GAS CONDENSATE

Purovsky Plant

Our subsidiaries and joint ventures are producing wet gas — a mixture of natural gas and gas condensate. After being separated and de-ethanized at the field the unstable (de-ethanized) gas condensate is delivered via a system of condensate pipelines owned and operated by the Company for further stabilization at our Purovsky Plant located in the YNAO in close proximity to the East-Tarkosalinskoye field.

The Purovsky Plant is the central element in our production value chain that provides us complete operational control over our processing needs and access to higher yielding marketing channels for our stable gas condensate. The Purovsky Plant produces stable gas condensate and light hydrocarbons after processing our unstable gas condensate.

As a result of launches of the Termokarstovoye and the Yaro-Yakhinskoye fields in June 2015, the Purovsky plant reached full utilization of its processing capacities

amounting to more than 12 mmt of unstable gas condensate on an annualized basis. The Purovsky Plant's processing capacity matches the overall gas condensate production capacity of the Company's fields in operation as of the second half of 2015.

During the reporting year, the de-ethanized gas condensate processing volumes at the Purovsky Plant increased by 82.1% to 12,021 mt. The structure of this output included 9,664 mt of stable gas condensate, 2,228 mt of light hydrocarbons and LPG and 11 mt of regenerated methanol. Our feedstock composition changed following the launches of new fields in 2015 resulting in a higher share of stable gas condensate in the total output of the plant, which increased from 78.5% in 2014 to 81.2% in the reporting year.

The Purovsky Plant is connected via its own railway line to the Russian rail network at the Limbey rail station. Subsequent to the launch of the Ust-Luga Complex in 2013, most of the stable gas condensate volumes produced at the Purovsky Plant are delivered by rail to Ust-Luga for further processing or transshipment to exports, with most of the remaining small volume of stable gas condensate sold directly from the plant to the domestic market. Commencing from the second quarter 2014 all of the light hydrocarbon volumes (feedstock for LPG production) produced at the plant are delivered by pipeline to SIBUR's Tobolsk Petrochemical Complex for further processing.

Ust-Luga Stable Gas Condensate Transshipment and Fractionation Complex

The Gas Condensate Fractionation and Transshipment Complex (the "Ust-Luga Complex") launched in 2013 is located at the all-season port of Ust-Luga on the Baltic Sea. The Ust-Luga Complex processes stable gas condensate into light and heavy naphtha, jet fuel, ship fuel component (fuel oil) and gasoil, and enables us to ship the value-added petroleum products to international markets. The Ust-Luga Complex also allows for transshipment of stable gas condensate to the export markets.

Processing volumes and output of the Purovsky Plant, thousand tons

	2014	2015	Change
PROCESSING OF DE-ETHANIZED CONDENSATE	6,600	12,021	82.1%
OUTPUT:			
Stable gas condensate	5,049	9,664	91.4%
Light hydrocarbons and LPG	1,371	2,228	62.5%
Methanol	14	11	(21.4)%

Due to growth in stable gas condensate production at the Purovsky Plant, in March 2015, the Ust-Luga Complex reached full utilization of its processing capacity of approximately seven (7) mmt on an annualized basis. In 2015, the Ust-Luga Complex processed 6,727 mt of stable gas condensate into 6,593 mt of end products, including 3,999 mt of light and heavy naphtha, 949 mt of jet fuel and 1,645 mt of ship fuel component (fuel oil) and gasoil. The share of heavy fractions like jet fuel, fuel oil and gasoil increased from 26% in 2014 to 39% in 2015 due to the change in the feedstock composition following launches of new fields.

High value-added petroleum products produced at the Ust-Luga Complex have a significant positive impact on the profitability of our liquid hydrocarbon sales and the Company's cash flow generation.

The Ust-Luga Complex reached full processing capacity and as such we began to transship stable gas condensate to the export markets by sea. During 2015, the volume of such export supplies amounted to 1.2 mmt.

NATURAL GAS SALES

NOVATEK plays an important role in ensuring supplies of natural gas to the Russian domestic market. During the past year, we supplied natural gas to 33 key consuming regions of the Russian Federation. Our customers were located primarily in the following regions (with natural gas sales of more than one (1) bcm per annum per region): Chelyabinsk, Perm, Stavropol, Moscow, Kostroma, Orenburg, Vologda, Sverdlovsk and Tyumen regions, Khanty-Mansiysk and Yamal-Nenets Autonomous Regions, and the cities of Moscow and St-Petersburg. The above-mentioned regions accounted for more than 95% of our total gas sales.

NOVATEK's 2015 natural gas sales volumes totalled 62.5 bcm, representing a decrease of 7.1% as compared to 2014 sales volumes of 67.2 bcm. Lower natural gas sales volumes resulted from one of our major customers temporarily not taking its full contracted volumes due to technical reasons and warmer weather in the Russian Federation in 2015 as compared to 2014. The proportional share of natural gas sales to end-customers remained practically unchanged compared to 2014 and amounted to 93% of our total natural gas mix.

Processing volumes and output of the Ust-Luga Complex, thousand tons

	2014	2015	Change
STABLE GAS CONDENSATE PROCESSING	4,706	6,727	42.9%
OUTPUT:			
Heavy naphtha	2,006	2,101	4.8%
Light naphtha	1,425	1,898	33.2%
Ship fuel component (fuel oil)	542	1,183	118.3%
Jet fuel	472	949	101.1%
Gasoil	179	462	158.1%

Natural gas sales, mmcm

	2014	2015	Change
TOTAL GAS SALES, INCLUDING:	67,231	62,465	(7.1)%
End customers	63,281	58,054	(8.3)%
Traders	3,950	4,411	11.7%
Share of end-customers in total gas sales	94.1%	92.9%	(1.2) p.p.

Our total revenues from natural gas sales totalled RR 222.2 billion, which is 3.6% lower as compared to 2014. The negative effect from the lower sales volumes on our total revenues was partially offset by the growth in regulated domestic tariffs by 7.5% effective from 1 July 2015. Our net revenues from gas sales (excluding transportation costs) demonstrated a minor decline of 1.3% as gas transportation tariff for independent producers increased from 1 July 2015 by only 2%.

During the reporting year, we concluded several major domestic natural gas supply contracts. In particular, five-year contracts were signed with NLMK Group with annual natural gas supply volume of 2.8 bcm starting from 2016, which fully cover the needs of all Russian entities of NLMK. Another contract was signed with Enel Russia for natural gas supply to the Nevinnomysskaya GRES with annual volume of approximately 2 bcm starting from 2016. We also extended a gas supply contract with Mosenergo for a period of four (4) years and with the annual supply volumes of nine (9) bcm of natural gas.

In order to maintain production levels during periods of seasonal demand NOVATEK has entered into an agreement with OAO Gazprom for underground storage services. Typically, natural gas inventories are accumulated during warmer periods when demand is lower and then used to meet increased demand during periods of colder weather. At year-end 2015, our inventories of natural gas in underground gas storage facilities and pipelines amounted to approximately 1.2 bcm.

As part of our international marketing strategy, we concluded several long-term contracts for the supply of LNG which we will purchase from the Yamal LNG project in accordance with the previously signed agreement. The contracts were concluded with Shell, ENGIE and Gunvor.

LIQUID HYDROCARBON SALES

NOVATEK sells liquid hydrocarbons (stable gas condensate, petroleum products, light hydrocarbons, LPG and crude oil) domestically and internationally. We strive to respond quickly to changing market conditions by optimizing the customer base and supply geography, as well as developing and maintaining our own logistics infrastructure.

The logistical supply chain varies according to location and type of product — stable gas condensate and LPG are transported by rail, finished petroleum products produced at the Ust-Luga Complex are exported by sea, while crude oil produced from our fields is transported through the trunk pipelines owned and operated by OAO Transneft.

Total sales volumes of liquid hydrocarbons in 2015 aggregated 12,888 thousand tons, representing a 82% increase over 2014 volumes. The record high growth rate is due to higher gas condensate production volumes and higher processing volumes at the Purovsky Plant and the Ust-Luga Complex, as well as to increase in crude oil production. Our export sales of liquids grew by 70% year-on-year to 9,004 thousand tons.

Our liquids sales revenues increased to RR 249.8 billion, or by 2 times as compared to 2014, mainly driven by much higher sales volumes as well as the growth in average prices in rouble terms due to higher US dollar to Russian rouble exchange rate and lower export duty rates. Liquid revenues exceeded revenues derived from natural gas for the first time in our corporate history.

Petroleum products from the Ust-Luga Complex accounted for 52% share of our overall liquids sales volumes. Petroleum product sales volumes grew by

Liquid hydrocarbon sales, thousand tons

	2014	2015	Change
TOTAL	7,089	12,888	81.8%
Petroleum products (Ust-Luga)	4,438	6,693	50.8%
Stable gas condensate	303	2,786	819.5%
LPG	930	1,280	37.6%
Crude oil	903	1,090	20.7%
Light hydrocarbons	504	1,026	103.6%
Other	11	13	18.2%

1.5 times to 6,693 thousand tons. This increase in high value-added product sales volumes had a very positive impact on the financial results of the Company. We sold 4,120 thousand tons of naphtha, 935 thousand tons of jet fuel and 1,638 thousand tons of fuel oil and gasoil. The main share of stable gas condensate processing products (99%) was sold for exports. Sales to the European markets accounted for 56% of total petroleum product sales volumes, 35% were sold to the Asian-Pacific region, 8% to North America and 1% to the Middle East. Naphtha was mainly exported to the Asian-Pacific countries, while jet fuel, fuel oil and gasoil was shipped to North-Western Europe.

Export sales of stable gas condensate were resumed in March 2015 after reaching full capacity utilization at the Ust-Luga Complex. During the reporting year 1,477 thousand tons of stable gas condensate were delivered for exports by sea and railway as compared to no volumes exported in 2014. Total stable gas condensate sales volumes grew nine-fold year-on-year to 2,786 thousand tons.

A portion of light hydrocarbons produced at the Purovsky Plant is processed on tolling terms at SIBUR's Tobolsk Petrochemical Complex to commercial LPG, which is then delivered to NOVATEK's customer base, while the rest of the light hydrocarbons volumes are sold to SIBUR. We sold 1,026 thousand tons of light hydrocarbons in 2015.

LPG sales volumes totaled 1,280 thousand tons in 2015, representing a 37.6% increase compared to 2014. LPG export sales volumes amounted to 551 thousand tons or 43% of the total LPG sales volumes. Novatek Polska, our wholly owned LPG trading company in Poland, sold 415 thousand tons of LPG, representing 75% of our total LPG export sales. Other export markets for LPG were Finland, Lithuania, Hungary, Slovakia and Turkey.

On the domestic market, our LPG is sold through large wholesale channels, as well as through our network of retail and small wholesale stations. In 2015, large wholesale supplies to the domestic market accounted for 602 thousand tons, representing 83% of commercial LPG domestic sales volumes. We also sold LPG via the network of 65 retail stations and seven (7) small wholesale stations in the Chelyabinsk, Volgograd, Rostov and Astrakhan regions. The total amount of LPG sold through our domestic network of retail and small wholesale stations amounted to 127 thousand tons.

Sales of crude oil in 2015 totaled 1,090 thousand tons, representing a 21% increase over 2014 volumes. We sold 65% of our crude oil volumes on the domestic market with the remaining volumes supplied to export markets.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

NOVATEK adheres to the principles of effective and responsible business conduct and considers the welfare of its employees and their families, environmental and industrial safety, the creation of a stable and beneficial social environment as well as contributing to Russia's overall economic development as priorities and responsibilities of the Company.

ENVIRONMENTAL PROTECTION

NOVATEK's core producing assets are located in the Far North, a harsh Arctic region with vast mineral resources and a fragile and vulnerable eco-environment. Throughout all of its operations the Company is committed to environment protection. In 2015 environmental

Key environmental indicators of NOVATEK, its subsidiaries and joint ventures

	Units	2014	2015	Change*
Water consumption	th. cubic meters	1,347	1,716	27%
Atmosphere emissions	th. tons	51.4	66.2	28%

Energy resources consumption by NOVATEK, its subsidiaries and joint ventures in 2015

	Units	Volume	RR mln, net of VAT
Natural gas	mmcm	1,780	2,314.5
Electricity	MW•h	610,230	2,051.2
Heating energy	Gcal	254,206	389.9
Crude Oil	tons	878	3.0
Motor gasoline	tons	1,069	42.1
Diesel fuel	tons	7,634	246.4
Other	tons	2,189	12.4

* The increase in key environmental indicators is largely due to the commissioning of production facilities as well as a significant increase in the hydrocarbon production and processing volumes.

expenditures of NOVATEK, its subsidiaries and joint ventures aggregated RR 776 mln.

NOVATEK has implemented a corporate-wide Health, Safety and Environmental (“HSE”) Policy and all of the Company’s principal subsidiaries and joint ventures operate an Integrated Health, Safety and Environment Management System (IMS), which comply with the international ISO 14001:2004 and OHSAS 18001:2007 standards. In 2015, NOVATEK successfully passed another IMS compliance audit.

As part of our HSE activities we pay special attention to preventive measures. In particular, the environmental aspects are taken into account in designing new production facilities: cutting-edge technology and equipment are used to considerably reduce the adverse environmental impact and risk of environmental accidents. The Company builds new and upgrades its existing waste disposal sites, equips its facilities with state-of-the-art drilling waste treatment units, sets up new sewage treatment facilities and revamps older ones.

The Heritage Environmental Damage Remediation Program included actions to remediate land, surface and ground water. In order to preserve biodiversity when developing our Yarudeyskoye oil field, we released muksun and peled young fishes into the river Northern Sosva of the Ob-Irtysh basin.

Throughout 2015, we performed environmental monitoring at all of the license areas and production facilities of the Company. This monitoring process includes surveys into the condition of environment components and collecting samples of soil, ground, snow covering, water, and river-bed deposit. Air contamination levels are inspected. The status of fish stock and fodder resources in water areas is monitored as are hydrologic and hydro-chemical parameters. The samples taken are later tested in certified laboratories, and based on the laboratory analysis the condition of the natural environment components is assessed and trends are observed over the year. The monitoring revealed that excess permissible levels of pollution in environmental components in the monitored locations were not registered.

In 2015, under the Company’s flagship Yamal LNG project, actions were taken to evaluate and mitigate the negative impact on the Atlantic walrus in and around the South-Tambeyskoye field. The field area site was cleared of scrap metal, residential and industrial waste. In the reporting year, Yamal LNG remediated 310 hectares of land and relinquished them to the Yamal district government. In order to compensate for the water resource damage, peled fry was released into the Ob-Irtysh basin river.

The Company systematically works to decrease its harmful greenhouse gas emissions into the atmosphere. In 2015, the Program for Rational Use of Associated Petroleum Gas (“APG”) enabled the Company to reach a 96% APG utilization rate at the Samburgskoye and East-Tarkosalinskoye fields. A booster compressor station to be commissioned at the central oil gathering facility in 2016 will ensure rational utilization of 95% of APG at our Yarudeyskoye field.

The Company continued its participation in the Carbon Disclosure Project (CDP) in 2015 whereby information on greenhouse gas emissions and operational energy efficiency is disclosed. We also disclose data on the use of water resources as part of the CDP Water Disclosure Project. By taking part in these important projects the Company intends to achieve a balance between the climate change risks and efficiency of investment projects. The Company offers all stakeholders full access to its environmental information and reports, including via publications in federal and local media, our corporate website, amongst other communication channels.

One of the Company’s environmental priorities is the rational usage of resources, including energy resources. The table below sets out the physical volumes and the Russian rouble equivalent of energy resources consumed by the Company, its subsidiaries and joint ventures in 2015.

HEALTH AND SAFETY

Our strategic goal is to achieve a leading position amongst oil and gas companies on all key indicators concerning Occupational Health and Safety. In order to accomplish this goal, the Company continually updates its IMS, improves employees’ qualification and applies advanced technologies.

In accordance with the requirements of the Federal Law “On Industrial Safety of Hazardous Production Facilities” and “Rules on the Organization and Implementation of Industrial Control for Compliance with Requirements of Industrial Safety at Hazardous Production Facilities” all of our subsidiaries have adopted Regulations on the organization and implementation of industrial control for compliance with these requirements. As part of the monitoring and compliance process, we have established industrial control compliance commissions, who carry out periodic audits of departments and production facilities to check adherence to our HSE requirements.

Workplace certification includes evaluating measures to control the harmful impact of hazardous factors in the workplace. Measures to improve working conditions are developed based on the results of the certification process. In the reporting year, we certified 1,078 operating workplaces. No workplaces were identified with unacceptable working conditions.

Key Health and Safety indicators of NOVATEK, its subsidiaries and joint ventures

	2014	2015	Change
Injury frequency rate (number of injuries per million working hours)	0.41	0.53	29%
Accident severity rate (total number of employee working hours lost per accident / number of accidents)	51	29	(43)%

In 2015, the NOVATEK commission continued comprehensive inspections of NOVATEK subsidiaries for occupational health, industrial, fire and environmental safety requirements. In the reporting year, NOVATEK's commission performed comprehensive inspections on six (6) entities, and, as a result, internal policy documents were developed to address the noted violations.

All of NOVATEK's subsidiaries and joint ventures conduct periodic safety training and briefings; personnel training and development programs are offered, among others, by specialized training centers; knowledge assessment is implemented on a regular basis. During the year, all entities undertook scheduled and unscheduled Health and Safety knowledge tests and 4,324 employees underwent HSE training courses. In 2015, the financing of Occupational Health and Safety totaled approximately RR 665 million.

HUMAN RESOURCES

Employees are NOVATEK's most valuable resource, allowing the Company to grow rapidly and effectively. The Company's human resource management system is based on the principles of fairness, respect, equal opportunities for professional development, dialogue between management and employees, as well as continuous, comprehensive training and development opportunities for the Company's employees at all levels.

As year-end 2015, NOVATEK and its subsidiaries had a total of 7,265 employees, of which 40.1% work in exploration and production, 17.5% in processing, 27.3% in transportation and marketing, 6.3% in power supply with the remaining 8.8% classified as administrative personnel. The middle-aged group (25–44 years) represents the largest age demographics in NOVATEK's personnel structure, with an average age of 40 years.

Personnel Training and Development

In an environment of rapidly developing technologies and management systems, our multilevel training and professional development program enables our employees to contribute to raising the Company's competitiveness. In 2015, the primary goals of training and professional development included:

- implementing an In-house Training program to improve the competences of the Company's employees;
- implementing the “Steps in Discovering Talents” program for young specialists targeted at training highly qualified personnel whose competence level fully meets business needs;
- developing and enhancing the “Corporate Technical Competency Assessment System” program; and
- involving young specialists in NOVATEK's “Research-to-Practice conference”.

To ensure targeted professional upgrade, an In-house Training program started in 2015.

NOVATEK's and subsidiaries' employees provided training to their colleagues in “well workover emergency operations and equipment”, “penetrating and testing producing horizons while drilling”, “complications and emergencies while drilling”, “gas and gas condensate wells equipment”, “well logging”, “structural geology”, et cetera. A total of 185 employees received training under this program in 2015.

In 2015, NOVATEK continued its efforts to enhance employee skills and improve working conditions to ensure a safe environment at its production facilities. During the reporting year, 39.6% of our specialists and line workers have upgraded their respective qualifications. During 2015, 751 people were tested under the Corporate Technical Competency Assessment System, including 28 people during the hiring process to fill vacant positions and 57 employees promoted to more senior positions.

We also had our second class of graduates completing the “Steps in Discovering Talents” program, whereby 25 young specialists participated in training activities aimed at the development of their professional skills. By the autumn of 2015, 23 new young specialists joined the program.

In 2015, the young specialists participated in the “Mentoring Culture” training courses together with the mentors. In total, 17 mentors attended the training.

In November 2015, Novy Urengoy hosted the 1st Interregional Professional Skills Contest among field workers. Over 30 participants from various NOVATEK subsidiaries demonstrated their skills and expertise in the contest. NOVATEK-YURKHAROVNEFTEGAS provided its facilities for the contest to take place. The participants competed in four professional categories, namely, oil and gas production operator, process unit fitter, electrical equipment fitter, and instrument and automation fitter. All participants received valuable gifts and the winners were awarded cash prizes and personal salary allowances for their professional skills.

The 10th Interregional Research-to-Practice Conference for the Company's young specialists attended by 56 employees was held in Moscow in September 2015. Based on the results of the competition, all of the winners received cash prizes, while seven (7) of the prize-winners and the winner in the “Best Implemented Project” category, were offered to study in the international oil and gas training centers in China.

Social Programs

Employee relations primary focus is mainly on implementing social programs, and according to the Core Concept of the Company's social policy adopted in 2006, the social benefits package for employees includes the following programs:

- voluntary medical insurance for employees;
- therapeutic resort treatment for employees and members of their families;
- provision of special-purpose short-term loans;
- special-purpose compensation and social support payments;
- provision of special-purpose interest-free loans to purchase housing, and
- pension program.

In addition to providing an optimum social benefits package, the Company is also committed to creating opportunities for employees to play sports and get involved in sports and cultural events. In 2015, our employees and their family members visited exhibitions at Russia's national museums, classical music concerts, and attended sporting events like football (soccer)

games and acrobatic “rock and roll” competition with the Company's assistance.

The Company publishes its corporate newsletter “NOVATEK” and corporate magazine “NOVATEK Plus” to inform employees about the Company's activities, production results, cultural, sports, and charitable programs.

SOCIAL POLICY AND CHARITY

NOVATEK attaches considerable importance to social policy and charity. The Company pays close attention to projects intended to support culture, preserve and revive the national values and intangible legacy of Russia, promote and integrate Russian art in the international cultural space, as well as advance “sports for all” and “high-performance sports”. NOVATEK enters into agreements with local regional governments where it operates and implements programs to facilitate improvement in local populations' living standards and preserve the distinctive cultural identity of the Far North indigenous peoples.

In 2015, NOVATEK and its subsidiaries directly invested approximately RR one billion in charitable, cultural and educational projects and activities to support the Far North indigenous peoples.

Cooperation with the regions

During the year, the Company invested funds in the Yamal-Nenets Autonomous District, and the Leningrad, Chelyabinsk, Tyumen, and Samara Regions under social agreements reached with regions where the Company maintains operations. The Company allocated funds for repairs and upgrades of social infrastructure facilities, financing of educational, cultural and children and youth programs and projects, and provided support to low-income families, disabled and elderly people.

Cooperation with Indigenous Peoples of the Far North

NOVATEK provided financial support to the “Yamal for Descendants” association and its district branches. We assisted indigenous peoples through financing arrangements for purchasing equipment and goods required by fishermen and reindeer herdsman, as well as fuel for air delivery of the nomadic population and food in remote areas.

In addition, the Company provided the following sponsorship in 2015:

- Nadym district — for organizing and holding the Open Reindeer Herders Contest for the Yamal-Nenets Autonomous Region Governor's Cup, as well as for building a kindergarten for 50 kids in the village of Nori;

- Tazovsky district — for the construction of a gym and a ski lodge in the village of Gyda;
- Yamal district — for giving medical treatment and financial aid to the persons among the indigenous minorities of the North who faced various hardships, as well as for targeted training programs for indigenous minorities; and
- Purovsky district — for supporting the local movement to protect the rights and interests of indigenous population.

Educational Programs

NOVATEK continued to develop and support the Company's continuing education program, which provides opportunities to gifted students, from the regions where we operate, to further their education at top rated universities, participate in NOVATEK internships and, upon completion of their studies, possible employment with the Company.

Recruitment and career guidance for promising employees start with the "Gifted Children" program implemented at School No. 8 in Novokuybyshevsk and School No. 2 in Tarko-Sale. In 2015, the "Gifted Children" class was opened in Tyumen Lyceum No 81. Special classes are formed on a competitive basis from the most talented grade 10 and 11 students with above-average test scores.

The Company also implemented two "Grants" programs for schoolchildren and teachers living in Purovsky District of the YNAO.

The "Grants" program for schoolchildren is aimed at academic and creative development and encouraging a responsible attitude towards studies. Under the program, students in grades five (5) through 11 are awarded grants from the Company. In 2015, the Company awarded 57 grants to students under this program.

The "Grants" program for teachers is intended to raise the prestige of the teaching profession and create favorable conditions for developing new and talented teachers. In 2015, six (6) teachers from the Purovsky District received grants under this program.

In an effort to create conditions for more effective use of university and college resources in preparing students for future professional activities, the Company developed and successfully implemented the NOVATEK-VUZ program. The program is an action plan for focused, high-quality training for specialists with higher education in key areas of expertise in order to grow the Company's business and meet its needs for young specialists. The program is based at the National Mineral Resources University (University of Mines), Gubkin Russian State University of Oil and Gas in Moscow and the Tyumen Oil and Gas University.

The Company provides additional monthly payments to students in these programs who have passed their exams with good and excellent results. During their studies, the students are offered paid field, engineering and directed internships. This experience allows them to apply the knowledge obtained at lectures and seminars to real-life situations and gain experience in the professions they have chosen, while the Company receives an opportunity to meet potential employees.

Support of Cultural Traditions

The strengthening of partnership relationships between the Company and Russia's leading cultural and educational institutions, creative groups and charity funds continued in 2015, namely the Russian State Museum (St-Petersburg), the Moscow Museum of Modern Art, the Jewish Museum & Tolerance Centre and the Multimedia Art Museum, Moscow (Moscow House of Photography).

The Company continued its partnership with the Imperial Gardens of Russia, an annual international festival organized by the Russian State Museum. Supported by NOVATEK, the Multimedia Art Museum hosted such exhibitions as "Russia. The twentieth century in photos. 1946–1964", "Antarctic. History. Antrectomy". Moscow Museum of Modern Art held the solo exhibition of Peter Weibel, the Austrian artist and media art theorist.

In the reporting year, the Company became a first-time partner of the Jewish Museum & Tolerance Center and supported the exhibition of one of the world's most acclaimed modern sculptors Anish Kapoor, who presented his works at the Sixth Moscow Biennale of contemporary art.

NOVATEK became a partner of the Federal Arctic forum "The Arctic Days in Moscow", organized by the Ministry of natural resources and environment of the Russian Federation. The forum hosted the II International scientific conference "The Open Arctic", "The Business climate in the Arctic" business session, as well as multimedia exhibition "The Arctic", presented at the Museum of Moscow.

NOVATEK also continued as a General Partner of the Moscow Soloists Chamber Ensemble led by Yuri Bashmet.

Sports Projects

NOVATEK continued its support for popular and high-level sports programs. The Company, its subsidiaries and joint ventures organize regular tournaments in some of the most popular sports, including football (soccer), volleyball, swimming to name a few. The Company continued its long-term partnership with the NOVA Volleyball Team (Novokuybyshevsk). In 2015, NOVATEK also was a General Partner of the Russian national football team and supported the Russian Federation of acrobatic “rock and roll”, the Student Basketball Association, the Figure Skating Federation of Russia and the Hockey Federation of the Yamal-Nenets Autonomous area.

Charity

The Company continued its cooperation with Chulpan Khamatova's “Gift of Life” charitable foundation in 2015. Jointly with the foundation, NOVATEK held two sessions at its Moscow headquarters whereby the Company employees donated blood for the children treated in the Russian Children's Clinical Hospital.

The “All Together” volunteer movement founded in 2008 carried on with its activities. The movement focuses on supporting orphans, children with various diseases, and the elderly as well as promoting blood donation.

MANAGEMENT AND CORPORATE GOVERNANCE

CORPORATE GOVERNANCE SYSTEM

NOVATEK strives to commit to the highest standards of corporate governance. We believe that such standards are an essential prerequisite to business integrity and performance and provide a framework for socially responsible management of the Company's operations.

The Company has established an effective and transparent system of corporate governance complying with both Russian and international standards. NOVATEK's supreme governing body is the General Meeting of Shareholders. The corporate governance system comprises the Board of Directors, the Board Committees, and the Management Board, as well as the system of internal control and audit bodies. The activity of all these bodies is governed by the applicable laws of the Russian Federation, NOVATEK's Charter and internal documents available on our website (www.novatek.ru).

NOVATEK strives to consider the principles of corporate governance outlined in the Corporate Governance Code recommended by the Central Bank of Russia (Information Letter No. 06-52/2463 dated 10 April 2014). The Company follows the recommendations of the Code, as well as offering to our shareholders and investors other solutions that are intended to protect their rights and legitimate interests.

Since the Company's shares are listed on the London Stock Exchange in the form of depositary receipts, NOVATEK places great emphasis on the UK Financial Reporting Council's Combined Code on Corporate Governance and follows its recommendations as far as practicable.

The Company adheres to the internal Corporate Governance Code approved by the Board of Directors in 2005 (Minutes No. 60 of 15 December 2005).

The Company also adheres to the internal Code of Business Ethics approved by the Board of Directors

in 2011 (Minutes No. 133 of 24 March 2011). The Code establishes general norms and principles governing the conduct of members of the Board of Directors, the Management Board and the Revision Commission, as well as NOVATEK's management and employees, which were drafted on the basis of moral and ethical values and professional standards. The Code also determines the rules governing mutual relationships inside the Company and NOVATEK's relationships with its subsidiaries and joint ventures, shareholders, investors, the government and public, consumers, suppliers, and other stakeholders.

In order to increase the effectiveness of the Company's corporate governance system and bring it into compliance with the requirements of the Corporate Governance Code following changes were made in the reporting year:

- NOVATEK's General Meeting of Shareholders held on 24 April 2015 approved the Regulations on Remuneration and Compensations payable to members of NOVATEK's Board of Directors; and
- the Board of Directors held on 12 March 2015 approved amendments to the Regulations on NOVATEK's Risk Management and Internal Control System.

NOVATEK's corporate governance practices make it possible for its executive bodies to effectively manage ongoing operations in a reasonable and good faith manner and solely to the benefit of the Company and its shareholders.

GENERAL MEETING OF SHAREHOLDERS

The General Meeting of Shareholders is NOVATEK's supreme governing body. The activity of the General Meeting of Shareholders is governed by the laws of the Russian Federation, the Company's Charter, and the Regulations on the General Meetings approved by NOVATEK's General Meeting of Shareholders in 2005

(Minutes No. 95 of 28 March 2005) with further alterations and amendments.

The General Meeting of Shareholders is responsible for the approval of annual reports, annual financial statements, the distribution of profit, including dividends payout, the election of the Board of Directors and the Revision Commission, approval of the Company's Auditor and other corporate and business matters.

On 24 April 2015, the Annual General Meeting of Shareholders approved the annual report, annual financial statements (in accordance with the Russian Accounting Standards), distribution of profit and the size of dividends based on the results of FY2014, the amended version of the Regulations on Remuneration and Compensations payable to members of NOVATEK's Board of Directors. The meeting also elected the Board of Directors (comprising eight (8) members due to exclusion of one of the candidates nominated by shareholders following withdrawal by this candidate of his consent to be elected) and the Revision Commission, as well as approved remuneration to members of the Board of Directors, Revision Commission and the Company's external auditor for 2015.

On 25 September 2015, the Extraordinary General Meeting of Shareholders approved the amount of interim dividend for the first half of 2015, early terminated the authority of the Board of Directors, elected a new Board of Directors and approved interested-party transactions.

BOARD OF DIRECTORS

The Board of Directors (the Board) activity is governed by the laws of the Russian Federation, the Company's Charter and the Regulations on the Board of Directors approved by NOVATEK's General Meeting of Shareholders in 2005 (Minutes No. 96 of 17 June 2005) with further alterations and amendments.

The Board carries out the overall strategic management of the Company's activity on behalf of and in the interests of all its shareholders, and ensures the Company's efficient and effective performance in order to increase shareholder value in a prudent and responsible manner.

The Board determines the Company's strategy and priority lines of business, endorses long-term and annual business plans, reviews financial performance, internal control, risk management and other matters within its competence, including optimization of corporate and capital structure, approval of major transactions, making decisions on investment projects and recommendations on the size of dividend per share and its payment procedure, and convening General Meeting

of Shareholders. The General Meeting of Shareholders elects the members of the Board.

The current members of the Board were elected at the Extraordinary General Meeting of Shareholders on 25 September 2015. The Board of Directors is comprised of nine (9) members, of which eight (8) are non-executive directors. Three (3) directors are considered to be independent in accordance with the Corporate Governance Code recommended by the Central Bank of Russia and the UK Combined Code on Corporate Governance. The Board Chairman is Alexander E. Natalenko. The Chairman is responsible for leading the Board and ensuring its effectiveness.

The members of NOVATEK's Board have a wide range of expertise as well as significant experience in strategic, operational, financial, commercial and oil and gas activities. The Board members hold regular meetings with NOVATEK's senior management to enable them to acquire a detailed understanding of NOVATEK's business activities and strategy and the key risks impacting the business. In addition to these formal processes, Directors have access to the Company's medium-level managers for both formal and informal discussions to ensure the regular exchange of information needed to participate in the Board meetings and make balanced decisions in a timely manner.

Efficient operation of the Board of Directors is supported by the Corporate Secretary, who has sufficient independence (appointed and dismissed by the Board of Directors) and endowed with the necessary powers and resources to carry out its tasks in accordance with the Regulations on the Corporate Secretary (Minutes No. 168 of 28 April 2014 with further alterations and amendments).

The Board of Directors membership as of 31 December 2015:

- Alexander E. Natalenko – Chairman of the Board
- Andrei I. Akimov
- Burckhard Bergmann
- Michael Borrell
- Robert Castaigne
- Leonid V. Mikhelson
- Victor P. Orlov
- Gennady N. Timchenko
- Andrei V. Sharonov

On 24 April 2015, the following changes took place in the Board of Directors membership: Yves-Louis Darriarrère, Vladimir A. Dmitriev, Victor P. Orlov ceased their Board membership, and one independent director, Robert Castaigne, and one shareholder representative, Michael Borrell, joined the Board.

On 25 September 2015, the following changes took place in the Board of Directors membership: one independent director, Victor P. Orlov, joined the Board.

Board activities during the 2015 corporate year¹

To ensure the Company's efficient performance, the Board meetings are convened on a regular basis at least once every two months. During 2015, the Board met 10 times, of which six (6) meetings were held in absentia. The following key issues were discussed and respective decision made:

- reviewed and approved the Company's 2015 full year operating and financial results;
- recommended an interim dividend for first half 2015, based on interim financial results for the period, and a full year dividend for 2015, based on full year financial results;
- reviewed and approved NOVATEK's business plan for 2016; and
- approved the transaction for the sale of 9.9% equity stake in Yamal LNG.

BOARD COMMITTEES

The Company has three (3) Board Committees: the Audit Committee, the Strategy Committee and the Remuneration and Nomination Committee. The Committees' activities are governed by the specific Committee Regulations approved by the Board of Directors and are available on our website.

The Committees play a vital role in ensuring that the high standards of corporate governance are maintained throughout the Company and that specific decisions are analyzed and the necessary recommendations are issued prior to general Board discussions. The minutes of the Committees meetings are circulated to the Board members and are accompanied by necessary materials and explanatory notes.

In order to carry out their duties, the Committees may request information or documents from members of the Company's executive bodies or heads of the Company's relevant departments. For the purpose of considering any issues being within their competence,

Board and Committee meetings attendance in the 2015 corporate year

Member	Independence ²	Board of Directors	Audit Committee	Remuneration and Nomination Committee	Strategy Committee
Alexander E. Natalenko		10/10			4/4
Andrei I. Akimov		10/10			4/4
Burckhard Bergmann		10/10	2/2	2/2	4/4
Michael Borrell		10/10			4/4
Robert Castaigne	Independent	10/10	5/5	4/4	
Leonid V. Mikhelson	Executive	10/10			
Victor P. Orlov	Independent	6/6	3/3	2/2	
Andrei V. Sharonov	Independent	10/10	5/5	4/4	
Gennady N. Timchenko		10/10			4/4

1. From the Annual General Meeting of Shareholders on 24 April 2015 until the Annual General Meeting of Shareholders on 22 April 2016.
2. Independent Director as of 31 December 2015 in accordance with the Corporate Governance Code recommended by the Central Bank of Russia and the UK Combined Code on Corporate Governance.

Committees membership as of 31 December 2015

	Audit Committee	Strategy Committee	Remuneration and Nomination Committee
Chairman	Andrei V. Sharonov	Alexander E. Natalenko	Victor P. Orlov
Members	Robert Castaigne	Andrei I. Akimov	Robert Castaigne
	Victor P. Orlov	Burckhard Bergmann	Andrei V. Sharonov
		Michael Borrell	
		Gennady N. Timchenko	

the Committees may engage experts and advisers having necessary professional knowledge and skills.

Strategy Committee

The primary functions of the Strategy Committee are the determination of strategic objectives of the operations and control over the implementation of the strategy, as well as recommendations on the dividend policy.

In carrying out its responsibilities and assisting the members of the Board in discharging their duties, the Strategy Committee is responsible for but not limited to:

- evaluating the effectiveness of the Company's operations in the long-term;
- preliminarily reviewing and making recommendations on the Company's participation in other organizations;
- assessing voluntary and mandatory offers to acquire the Company's securities;
- considering the financial model and business valuation of the Company and its business segments in order to make recommendations to the Board of Directors in making decisions on the definition of business priorities of the Company;
- providing recommendations to the Board of Directors on transactions subject to approval by the Board of Directors; and
- providing recommendations to the Board of Directors with respect to the Company's policy on the use of its non-core assets.

In corporate year 2015, the Strategy Committee met four (4) times.

Remuneration and Nomination Committee

The primary functions of the Remuneration and Nomination Committee is the development of an efficient and transparent compensation practice of members of the Company's management, enhancement of the professional expertise and improvement of the Board of Directors' effectiveness.

In order to assist the Board, the Committee performs the following functions:

- develop and regularly review the Company's policy on remuneration of the members of the Board of Directors, members of the collective executive body and the sole executive body of the Company, oversee its implementation and realization;
- preliminarily assess the work of the executive body of the Company for the year in accordance with the Company's remuneration policy;
- assess the Board of Directors in terms of professional expertise, experience of independence and involvement of its members in the work of the Board of Directors, determine the priority areas for strengthening the Board of Directors;
- interact with shareholders in order to form the Board of Directors that best meets the goals and objectives of the Company;
- analysis of professional qualifications and independence of the candidates to the Board of directors;
- plan appointments of members of the executive body and the sole executive body on the base of continuity principles; and
- supervision over disclosure of information on the Company's shares owned by the members of the Board of Directors and Management Board, and other key management employees.

In corporate year 2015, the Remuneration and Nomination Committee met four (4) times.

Audit Committee

The primary function of the Audit Committee is control over financial and operating activities of the Company. In order to assist the Board in performing control functions the Committee is responsible for but not limited to evaluating accuracy and completeness of the Company's full year financial statements, the candidature of the Company's external auditor and the auditor's report, and the efficiency of the Company's internal control procedures and risk management system.

The Audit Committee works actively with the Revision Commission, the external auditor and the Company's executive bodies, inviting NOVATEK's managers responsible for the preparation of the financial statements to attend the Committee meetings.

In corporate year 2015, the Audit Committee met five (5) times.

MANAGEMENT BOARD

NOVATEK's Management Board is a collegial executive body responsible for the day-to-day management of the Company's operations. The Management Board is governed by the laws of the Russian Federation, NOVATEK's Charter, decisions of the General Meetings of Shareholders and the Board of Directors and by other internal documents. More information regarding the Management Board's competence is provided in the Regulations on the Management Board approved by NOVATEK's General Meeting of Shareholders in 2005 (Minutes No. 95 of 28 March 2005) with further alterations and amendments.

Members of the Management Board are elected by the Board of Directors from among the Company's key employees. The Management Board is subordinated to the Board of Directors and the General Meeting of Shareholders. The Chairman of the Management Board is responsible for leading the Board and ensuring its effectiveness as well as organizing the Management Board meetings and implementing decisions of the General Meeting of Shareholders and the Board of Directors. The Management Board acting as of 31 December 2015 is comprised of nine (9) members elected by the Board of Directors on 30 August 2012 (Minutes No. 150 of 30 August 2012) and 12 March 2015 (Minutes No. 173 of 12 March 2015).

Management Board Members as of 31 December 2015:

- Leonid V. Mikhelson — Chairman
- Alexander M. Fridman — First Deputy Chairman
- Vladimir A. Baskov — Deputy Chairman
- Mark A. Gyetvay — Deputy Chairman
- Tatyana S. Kuznetsova — Deputy Chairman — Director of Legal Department
- Iosif L. Levinzon — Advisor on Geology
- Lev V. Feodosyev — Deputy Chairman — Commercial Director
- Sergey V. Protosenya — Deputy Chairman
- Kirill N. Yanovskiy — Director for Finance

REMUNERATION TO MEMBERS OF THE BOARD OF DIRECTORS AND MANAGEMENT BOARD

The procedure for calculating the remuneration and compensations to members of NOVATEK's Board of Directors is governed by the Regulations on Remuneration and Compensations payable to members of NOVATEK's Board of Directors approved by the Annual

Information on remuneration of members of NOVATEK's Board of Directors and Management Board in 2015, RR mln

	Board of Directors*	Management Board
TOTAL PAID, INCLUDING:	148.9	2,053.2
Salaries	-	625.5
Bonuses	-	1,416.1
Fees	147.0	-
Other property advancements	1.9	11.6

* Some members of NOVATEK's Board of Directors are simultaneously members of the Management Board. Payments to such members in relation to their activities as members of the Management Board are included in the total payments to members of the Management Board.

General Meeting of Shareholders (Minutes No. 122 of 24 April 2015). According to the Regulations the remuneration consists of the following types:

- fixed part of remuneration;
- remuneration for attending the Board of Directors meetings; and
- remuneration for attending the meetings of the committees of the Board of Directors.

The fixed part of remuneration to a Board member constitutes RR 10 million per corporate year. The Chairman of the Board of Directors is paid a fixed remuneration for the performance of its functions in the amount of RR 20 million per corporate year. Members of the Board of Directors are also paid remuneration for attending the meetings of the Board of Directors in the maximum amount of RR 3 million per corporate year and remuneration for attending the meetings of the committees of the Board of Directors in the maximum amount of RR 2 million per corporate year. The Board members are also compensated for travel and lodging expenses related to implementation of their functions as NOVATEK Board of Directors members.

The procedure for and criteria of calculating remuneration to the Chairman and members of NOVATEK's Management Board, as well as the compensation of their expenses, are prescribed in the Regulations for the Management Board and the employment contracts they sign with the Company.

INTERNAL CONTROL AND AUDIT

The Company has a system of internal control over financial and business operations in accordance with international best practices. The process of internal control is an integral part of the risk management process.

The system of internal control consists of the Board of Directors, the Audit Committee, the Chairman of the Management Board, the Management Board, the Revision Commission and the Internal Audit Division.

The primary objects of internal control are OAO NOVATEK, its subsidiaries and joint ventures, and their subdivisions, as well as their ongoing business processes.

In order to combat corruption, mitigate compliance, operational and reputation risks, the Company adopted the Anti-Corruption Policy and the Regulation on NOVATEK Risk Management and Internal Audit System approved by the Board of Directors on 1 September, 2014 (Minutes No. 170 of 1 September 2014).

Throughout the reporting year, the Company maintains a Security Hotline in accordance with the

Anti-Corruption Policy. All necessary inspections have been promptly made in response to the complaints reported to the Hotline.

Revision Commission

The Revision Commission consisting of four (4) members who are elected at the Annual General Meeting of Shareholders for a period of one year. The competence of the Revision Commission is governed by the Russian Federation Law On Joint Stock Companies No. 208-FZ dated 26 December 1995 as well as the Company's Charter and the Regulations on the Revision Commission approved by the General Meeting of Shareholders in 2005 (Minutes No. 95 of 25 March 2005).

The Revision Commission is an internal control body responsible for oversight of the Company's financial and business activities. The Revision Commission performs audits of the Company's financial and business performance for the year, as well as any other period as may be decided by its members or other persons authorized in accordance with Russian Federation law and the Company's Charter. The results of these audits are presented in the form of findings by the Revision Commission.

In March 2016, the Revision Commission completed the on-site audit revision of financial and business activity of the Company for the year 2015. As a result, the conclusions about the reliability of the data contained in the Company's 2015 Financial Statements (under the Russian accounting standards) and Annual Report were prepared and submitted to the Annual General Meeting of Shareholders.

Internal Audit Division

In order to conduct a systematic, independent evaluation of the reliability and effectiveness of the risk management and internal control system as well as corporate governance practices the Company performs internal audits of the Company's operations. The internal audit function is implemented by the independent Internal Audit Division, which has operated continuously since 2005.

The Internal Audit Division is functionally subordinate to the Board of Directors and is guided by International professional internal audit standards of Institute of Internal Auditors. The Division also adheres to the principles and rules of conduct stated in internal auditor's Code of Business Conduct of the Institute of Internal Auditors.

The Division carries out its activities on the basis of an annual plan of inspections approved by the Audit Committee and uses a combination of risk-based and cyclic

approaches. According to the results of inspections it develops measures to eliminate identified risks and optimize financial and business activities. Implementation of the measures is monitored on a regular basis.

The Internal Audit Division regularly interacts with the external auditor by exchanging information on action plans, audit results and other matters of significance to ensure the effective discharge of their responsibilities.

To improve the efficiency and optimize the costs the Internal Audit Division employees serve on the revision commissions of subsidiaries and joint ventures.

External Auditor

The Annual General Meeting of Shareholders appoints an external auditor to conduct independent review of NOVATEK's financial statements. The Audit Committee gives recommendations to the Company's Board of Directors regarding the candidatures of external auditors and the price of their services. Based on the Committee's recommendations, the Board proposes the auditor's candidature for the consideration and for approval by the Annual General Meeting of Shareholders.

AO PricewaterhouseCoopers Audit (an internationally recognized audit firm) was chosen as the Company's external auditor to conduct the audit of the annual financial statements for 2015 under RAS, as well as independent reviews of the Company's quarterly financial statements and audit of the annual financial statements under IFRS.

In selecting the auditor's candidature, attention is paid to level of their professional qualifications, independence, possible risk of any conflict of interest, terms of the contract, and an amount of remuneration requested by the candidates.

The Audit Committee oversees the external auditor's independence and objectivity as well as the quality of the audit conducted. The Committee annually provides to the Board of Directors the results of review and evaluation of the audit opinion regarding the Company's financial statements. The Audit Committee meets with the auditor's representatives at least twice per year.

NOVATEK's management is aware of and accepts recommendations on the independence of the external auditor by restricting such auditor's involvement in providing non-audit services. Remuneration paid to the principle auditors for auditing and other services is specified in the Note 23 to the consolidated financial statements prepared in accordance with IFRS standards for 2015.

SHARE CAPITAL

Our share capital is RR 303,630,600 and consists of 3,036,306,000 ordinary shares, each with a nominal value of RR 0.1. As of 31 December 2015, NOVATEK did not have privileged shares.

Our shares are traded in Russian roubles on the Moscow Exchange and have a first grade listing (symbol: NVTK).

The Federal Financial Market Service issued to NOVATEK a permit for circulation of shares beyond the Russian Federation of 910,589,000 ordinary shares comprising 29.99% of the Company's share capital.

Our Global Depositary Receipts (GDR) are listed on the London Stock Exchange (symbol: NVTK), with each GDR representing 10 ordinary shares. As of 31 December 2015, NOVATEK's GDRs were issued on 906,782,300 ordinary shares comprising 29.86% of the Company's share capital.

On 24 December 2015, the Member of the Board of Directors of OAO NOVATEK, Gennady N. Timchenko made the transaction on the purchase of NOVATEK's shares in the amount of 435,102,064 shares. In 2015, the Member of the Board of Directors of OAO NOVATEK, Burckhard Bergmann made the transaction on the sale of NOVATEK's shares (in a form of GDRs) in the amount of 200,000 shares.

DIVIDENDS

The Company's Dividend Policy is regulated by the Regulations on Dividend Policy of OAO NOVATEK approved by the Board of Directors on 28.04.2014 (Minutes No. 168 of 28.04.2014). According to the Regulations, consolidated net income under IFRS is applied for calculation of the dividend size.

NOVATEK's dividend policy is based on keeping the balance between the Company's business goals and shareholder's interests. A decision to pay dividends as well as the amount of the dividend, the payment deadline and form of the dividend is passed by the Annual General Meeting of Shareholders according to the recommendation of the Board of Directors. Dividends are paid twice a year. In determining the recommended amount of dividend payments to be distributed the Board of Directors consider the current competitive and financial position of the Company, as well as its development prospects, including operating cash flow and capital expenditure forecasts, financing requirements, debt servicing and other such factors as it may deem relevant to maintaining financial stability and flexible capital structure of the Company. NOVATEK is strongly committed to its dividend policy.

Equity stakes in NOVATEK's share capital and the number of shares owned by members of the Board of Directors and Management Board*

	Equity stake as of 31 December 2015, %	Number of shares
BOARD OF DIRECTORS		
Alexander E. Natalenko	-	-
Andrei I. Akimov	-	-
Burckhard Bergmann	-	-
Michael Borrell	-	-
Robert Castaigne	-	-
Leonid V. Mikhelson	0.7152	20,717,112
Victor P. Orlov	-	-
Andrei V. Sharonov	-	-
Gennady N. Timchenko	14.33	435,102,064
MANAGEMENT BOARD		
Vladimir A. Baskov	0.0288	874,408
Lev V. Feodosyev	-	-
Alexander M. Fridman	0.0817	2,481,049
Mark A. Gyetvay	-	-
Tatyana S. Kuznetsova	0.1944	5,903,035
Iosif L. Levinzon	-	-
Sergey V. Protosenya	0.0765	2,323,223
Kirill N. Yanovskiy	0.1051	3,192,530

Accrued and paid dividends on NOVATEK shares for the period 2010 to 2015

Dividend accrual period	Amount of dividends, RR per share	Total amount of dividends accrued, RR	Total amount of dividends paid, RR
2010	4.00	12,145,224,000	12,144,967,156
2011	6.00	18,217,836,000	18,217,661,063
2012	6.86	20,829,059,160	20,829,058,569
2013	7.89	23,956,454,340	23,956,347,687
2014	10.30	31,273,951,800	31,273,843,933
First half 2015	6.60	20,039,619,600	20,039,504,550

The amount of paid dividends accrued for the years 2010 to 2014, and for the first six months 2015 is reported as of 31 December 2015. Partial payment of the accrued dividends was made due to provision by shareholders of incorrect postal and/or banking details and insufficient information regarding banking or postal details of shareholders.

* The equity stakes are given based on the records in the register of NOVATEK's shareholders and notifications received from members of the Board of Directors and Management Board, in accordance with the Russian Federation laws.

On 10 March 2016, the Board of Directors of OAO NOVATEK recommended to the Annual General Meeting of Shareholders to pay dividends for FY 2015 in the amount of RR 6.9 per ordinary share or RR 69.0 per one Global Depository Receipt (GDR), exclusive of RR 6.60 of interim dividends per ordinary share or RR 66.0 per one GDR paid for the first six months of 2015.

Thus, should the General Meeting of Shareholders approve the recommended dividend, the dividends for 2015 will total RR 13.5 per ordinary share (RR 135.0 per one GDR), and the total amount of dividends payable for 2015 will be RR 40,990,131,000. This will represent a 31% increase in dividend per share compared to 2014.

INFORMATION TRANSPARENCY

NOVATEK is committed to providing objective, reliable, and consistent information about the Company and its activities to all stakeholders and also complies with best practices for information disclosure while adhering to a maximum level of transparency. The Regulations on Information Policy approved by the Board of Directors (Minutes No. 45 of 10 May 2005), define main principles for disclosing information and increasing information transparency.

Material information about the Company is disclosed in a timely manner in the form of press releases and material facts through authorized disclosure in accordance with the applicable laws of Russian Federation and United Kingdom. The Company discloses quarterly financial statements in accordance with the Russian ("RAS") and International Financial Reporting Standards ("IFRS"), Management's Discussion and Analysis of Financial Condition and Results of Operations as well as presentations for investors.

The Company's website provides detailed information on all aspects of its activities, including our Sustainability Report. We regularly participate in information disclosure on greenhouse gas emissions and energy efficiency of production — the Carbon Disclosure Project (CDP), and on the use of water resources — the CDP Water Disclosure Project, as well as other industry's publications and studies.

The Company maintains an ongoing dialogue with shareholders and investors in order to ensure full awareness of investment community about its activities. The main channels of communication with the investment community are through the Chairman of the Management Board, Deputy Chairman and the Investor Relations department. The Company's representatives meet on a regular base with key financial audiences to discuss issues of interest to them.

In accordance with the principles of its unified information policy, NOVATEK is engaged in an active, ongoing dialog with representatives of media. Information disclosed to mass media comprises all aspects of the Company's activities, including financial and operating results and projects under development, as well as socially or environmentally important matters. The Public Relations Department of the Company frequently holds press conferences, briefings, and press tours.

NOVATEK actively involves in a variety of industry exhibitions and conferences. In 2015, NOVATEK's management and employees participated in more than 15 exhibitions, conferences and round tables. The Company annually takes part in St Petersburg International Economic Forum (SPIEF). In the reporting year, NOVATEK's delegation participated in the largest international events such as 26th World Gas Conference and WGC 2015 in Paris as well as Gastech 2015 in Singapore.

ADDITIONAL INFORMATION

RISK MANAGEMENT SYSTEM

The Company's activities are subject to risks inherent only to the Company or associated with the Company's core business.

A multilevel system of risk management has been implemented at the Company. Powers, duties and responsibilities for specific risk management procedures are delegated to different governance levels of the Company depending on the assessment of financial impact of risk. The Company's risk management policy is laid out in the Regulations on NOVATEK Risk Management and Internal Control System approved by the Board of Directors on 1 September 2014 (Minutes No. 170 of 1 September 2014) with amendments.

The Board of Directors' Audit Committee is responsible for the supervision over the reliability and efficiency of the risk management framework and review of the risk management policy. In the reporting year, the Audit Committee after careful review and analysis of the information provided, recognized NOVATEK's risk management activities as compliant with the risk management policy of the Company.

Below is the list of risks and approaches to risk management applied by the Company. The risks described herein are not exhaustive and reflect the opinion on the most material risks based on the estimates of the Company's management.

Risk	Risk description	Risk management approaches used by the Company
OPERATIONAL RISKS		
Risks of emergencies and incidents	The Company's subsidiaries and joint ventures are subject to the risks of emergencies and incidents at hazardous production facilities that may entail business interruption, hazardous emissions or spills, which in turn may have a negative effect on the Company's business reputation and financial performance.	<p>The Company performs continuous monitoring of industrial safety compliance, develops and implements organizational and technical measures aimed at mitigating the risks of emergencies and incidents and reducing potential losses as part of its existing integrated industrial safety management system that is certified under the OHSAS 18001:2007 standard. The Company holds property and business interruption insurance policies.</p> <p>The Company adheres to the principle of responsible investments which implies that new design solutions, technologies and equipment installed help significantly mitigate accident risks.</p>
Monopoly risks	The Company depends on monopoly suppliers of transport services (such as Gazprom, RZD, or Transneft). The Company has no influence on the capacity of transport facilities of the above monopolies and rates established by a Federal body.	<p>The Company enters into long-term agreements and in a timely manner arranges for interaction with monopolies regarding hydrocarbon transportation by pipeline and railway transport.</p> <p>To reduce its dependency, the Company implements investment projects that reduce the length of transportation of finished products, and concludes agreements enabling it to use alternative methods of product transportation (an agreement with SIBUR for the supply of light hydrocarbons to Tobolsk Petrochemical Complex).</p>

Risk	Risk description	Risk management approaches used by the Company
Competitive risks	<p>The Company operates in an environment of tough competition with Russian and international oil and gas companies in the following areas:</p> <ul style="list-style-type: none"> obtaining of subsoil licenses and acquisition of companies holding subsoil licenses; selling natural gas on the Russian market; selling liquid hydrocarbons in the Russian and global markets; acquisition of oil and gas equipment and services; access to transportation infrastructure, which has technological limitations; employment of highly qualified specialists to work for the Company and its subsidiaries and joint ventures. 	<p>The Company monitors commercially available assets with regard to the objectives of its long-term development strategy, enabling the Company to make an objective assessment of its competitive positions and to take the maximum benefit of its competitive advantages that include extensive regional work experience and synergy with the existing producing, transport, processing and distribution infrastructure.</p> <p>When acquiring equipment and services, the Company holds public tenders allowing it to diversify the suppliers and to ensure the best conditions. The Company works continuously to structure its relations with key service providers. Given the volatility in international relations with certain countries that are providers of sophisticated oil & gas equipment, the Company pursues import replacement policies where it is appropriate.</p> <p>The Company pursues an active marketing policy and takes efforts to expand its customer base, and to enter into long-term agreements with buyers. To diversify its natural gas marketing portfolio, throughout the reporting period the Company was engaged in trading in the Natural Gas Section of the St. Petersburg International Mercantile Exchange.</p> <p>The Company implements an active HR policy and applies efficient mechanisms of attracting and retaining highly qualified employees.</p>
Commodity price risks	<p>As an independent natural gas producer, NOVATEK is not subject to state regulation of natural gas prices. Nevertheless, the Company's prices are strongly influenced by the prices established by a Federal body.</p> <p>Moreover, the Company is exposed to the current pricing environment on the Russian and international liquid hydrocarbon markets as it has no power over the contracts' base prices. Reduction of prices for liquid hydrocarbons may have a negative effect on the Company's financial performance.</p>	<p>State regulation of gas prices significantly reduces the risk of price volatility on the Russian gas market.</p> <p>In view of the vertically integrated production chain for liquid hydrocarbons and taxation peculiarities, the Company does not use commodity derivative financial instruments to reduce the risk of price changes for such type of products.</p>
Geological risks	<p>Exploration drilling is associated with multiple risks, including the risk of non-discovery of commercial reserves. Information on the Company's reserves depends on a number of factors and assumptions. Actual production volumes at the fields, along with the cost-effectiveness of reserve development may deviate from estimates.</p>	<p>To minimize geological risks, the Company relies on the geological modeling and engages major contractors that apply state-of-the-art exploration technologies and methods.</p> <p>The Company makes annual assessment and evaluation of its reserves based on the results of exploration and production drilling and other research information. An independent international adviser evaluates the Company's reserves according to international standards on annual basis.</p>
Risk of early termination, suspension or restriction of the right to use subsurface mineral resources	<p>Exploration and production of hydrocarbons in Russia is subject to licensing. The Company is thus exposed to the risk of early termination, suspension or restriction of its right to use subsurface mineral resources.</p>	<p>The Company strives to comply, and maintains a continuous monitoring of its compliance with the license agreements and the subsoil use laws, and submits timely requests for adjusting the terms of its license agreements.</p>

Risk	Risk description	Risk management approaches used by the Company
Environmental risks	The Company is subject to the probability of events having adverse consequences for the environment and caused by a negative impact of its industrial and other activities, as well as natural and technology-related emergencies.	<p>The Company and its key subsidiaries have an environmental management system according to ISO 14001:2004 standard to ensure rational use of resources and to minimize the adverse effect the Company's operation may have on the environment.</p> <p>The Company adheres to the principle of responsible investment in operations, which implies that new design solutions, technologies and equipment installed help minimize environmental impact.</p>
Project risks	Volatile exchange rates of the national currency and unstable lending conditions, growing funding costs, drop in hydrocarbon prices, precarious financial position of contractors and oil and gas equipment suppliers may affect the Company's Investment Program leading to delays in project execution and/or rising project costs.	<p>The Company implements expert review of projects at the project development stage. Investments are only channeled into the projects that are most likely to help the Company achieve its strategic objectives.</p> <p>The Company has tightened its selection requirements for contractors and suppliers of oil and gas equipment. There is ongoing monitoring of their performance, including on-site visits to the oil and gas equipment plants involved in production and testing of the equipment for the Company.</p>
Ethical risks	The Company is exposed to the risks of disturbed relationships within the Company and with its subsidiaries and joint ventures, shareholders, investors, the government, the public, consumers or suppliers or other corporate entities or individuals, including the risk of fraud, corruption, and conflict of interest.	<p>In 2011 in order to minimize ethical risks, the Company introduced a Code of Business Conduct and Ethics.</p> <p>The Company is governed by the provisions of the internal Code of Business Conduct and Ethics and Code of Corporate Conduct, as well as the applicable Russian and English law in terms of public company regulation. This mitigates ethical risk to stakeholders and investors.</p> <p>To exclude ethical risks in its relations with third parties, the Company carries out tender procedures to select counterparties and has a well-established internal control and audit system.</p> <p>In 2014 the Board of Directors approved NOVATEK's Anti-Corruption Policy that established key principles and standards of anti-corruption practices for employees and includes a set of corruption prevention measures.</p> <p>As part of the Anti-Corruption Policy implementation a Security Hotline is in a 24/7 operation.</p>
Social risks	<p>The Company is subject to the following risks of a social nature:</p> <ul style="list-style-type: none"> internal risks associated with a possible incompliance of social programs implemented by the Company with the industry's average level that may lead to a higher labor turnover; external risks associated with potential impediments in normal production activities caused by the public living in proximity to the production facilities. 	<p>The Company strives to ensure compliance of its social programs with the industry's average level and uses the up-to-date mechanisms for attracting and retaining highly professional employees.</p> <p>The Company's production facilities are located outside densely populated territories, and the Company monitors compliance with the rules and regulations while operating its facilities. The risks related to possible military conflicts, announcement of a state of emergency, or strikes, are insignificant, as the Company operates in economically and socially stable regions.</p>
Terrorism risks	The Company is subject to a risk of terrorist threat	The Company takes measures required to ensure strict compliance with Federal Law No. 256-FZ of 21 July 2011 concerning the Fuel and Energy Complex Security. A complex of organizational and practical measures is constantly in place to ensure security of facilities, including linear ones.

Risk	Risk description	Risk management approaches used by the Company
Country risk	<p>NOVATEK is a Russian company operating in a number of Russian regions. Country risk is defined by the fact that Russia is still an emerging economy, the economic environment of which is not sufficiently stable.</p> <p>In 2015, a precipitous decline in crude oil prices and international sanctions caused volatility in foreign currencies, growing inflation rates, an increase in interest rates and an economic growth slowdown.</p> <p>The said factors have a negative impact on the Company's operational and financial performance.</p>	<p>Active marketing and financial policy enable the Company to mitigate the country risk.</p> <p>Moreover, the Company's management continuously analyzes the macro-economic environment and makes prompt decisions to mitigate potential risks.</p>
Regional risk	<p>The Company produces and processes hydrocarbons within Western Siberia, a region with a challenging climate.</p>	<p>The Company's vulnerability to region-specific impacts is insignificant and is entirely taken into account by the Company's management at the facilities design and operation stage.</p>

FINANCIAL RISKS

Credit risk	<p>The Company is exposed to a risk of losses related to a failure by counterparties to perform their contractual financial obligations when due, and in particular depends on the reliability of banks in which the Company deposits its available cash.</p>	<p>When selling natural gas on the domestic market, the Company continuously monitors the financial soundness of its consumers and takes actions in case there are overdue payments.</p> <p>Most of NOVATEK's international liquid sales are made to major customers with independent ratings. Almost all domestic sales of liquid hydrocarbons are made on a 100 percent prepayment basis.</p> <p>When selecting banks, the Company is governed by bank's reliability confirmed by international ratings.</p>
Reinvestment risk	<p>The Company's business requires substantial investments into field exploration and development, followed by the production, transportation, and processing of natural gas, oil, gas condensate and petroleum products. Insufficient funding for these and other expenditures may affect the Company's financial standing and performance.</p>	<p>The Company's capital investment plans are defined in its long-term development strategy, are revised on an annual basis and are generally in line with the Company's ability to generate cash flow from operations taking into account the need to pay dividend and service its debt.</p>
Interest risks	<p>As a major borrower, the Company is subject to risks associated with an increase in interest rates. Interest rates on some of the Company's loans may be linked to floating international and Russian base rates which dynamics are hard to predict. Volatile interest rates may restrict the use of borrowed capital as a financing source for the Company's investment activity and may increase interest rate expenses.</p>	<p>The Company pursues a balanced debt policy and strives to maximize the share of long-term liabilities with fixed rates in its debt portfolio. The Company strives to maintain flexibility in its investment program.</p>
Currency risks	<p>Part of the Company's liabilities is denominated in foreign currencies, which may lead to losses in the event of Russian rouble depreciation. On the other hand, part of the Company's proceeds is also denominated in foreign currencies, which may lead to losses in the event of Russian rouble appreciation.</p>	<p>The liabilities expressed in foreign currency on the one hand, and export proceeds on the other generally offset each other and serve as a natural mechanism to hedge currency risks.</p>

Risk	Risk description	Risk management approaches used by the Company
Liquidity risk	Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.	<p>The Company's approach to managing liquidity risk is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. In managing its liquidity risk, NOVATEK maintains an adequate ratio between cash reserves and debt, monitors forecast and actual cash flows and matches the financial assets and liabilities maturity profiles.</p> <p>The Company uses various short-term borrowings. The Company may use credit facilities and bank overdrafts to satisfy its short-term finance needs. To satisfy its needs for cash on a more permanent basis, the Company will normally raise long-term loans in the available markets.</p>
Inflation risk	Changes in the consumer price index have an impact on NOVATEK's profitability and, as a consequence, its financial standing. The significant currency depreciation in 2015 caused a surge in inflation rates, which are impossible to accurately predict.	<p>NOVATEK may not be able to predict the inflation level, since, apart from the consumer price level, it is necessary to take into account the change in the real purchasing power of the Russian rouble, the pricing conditions in liquid hydrocarbon export markets, and government policy in relation to tariffs for natural gas.</p> <p>NOVATEK monitors the consumer price index and accordingly acts to mitigate its costs.</p>
LEGAL RISKS		
Risk of law changes	<p>The Company is subject to a risk of facing consequences of changes in Russian laws in the following areas:</p> <ul style="list-style-type: none"> • currency laws (in areas concerning export/import and borrowing operations); • tax laws (in areas regulating taxation systems and rates applicable to companies in general, and to companies producing and marketing natural gas and liquid hydrocarbons, specifically); • customs laws (in areas concerning the export of liquid hydrocarbons, including petroleum products); and • licensing requirements for natural resource extraction. 	The Company is constantly monitoring draft laws enabling to evaluate the consequences of such changes and to take them into account in its plans.
Litigation risks	The Company may be involved as a defendant or plaintiff in a number of proceedings arising in the normal course of its business.	When conducting its business, the Company adheres to the principle of prudence. Due to this fact, as of the approval date of the Annual Report, the Company was not involved in any material litigation and the associated risks are insignificant.
Risk of sanctions	<p>In 2014, the Company was included into the US sectoral sanctions list whereby the US persons are prohibited to participate in providing financing to the Company for more than 90 days. The sanctions imposed restrict the Company's ability to refinance its debt.</p> <p>Furthermore, there is a risk of tougher US sanctions and risk of including the Company into other countries' sanctions lists, which may undermine the Company performance.</p>	<p>The Company follows a balanced financial policy enabling it to minimize its fundraising needs. Moreover, the Company still has a full access to the Russian capital market and a limited access to the international market.</p> <p>In case the US sanctions are toughened and the Company is included in other countries' sanctions lists, the Company management will make every possible effort to minimize the negative impact on the Company's business operations and financial standing.</p>

Risk Insurance

Risk insurance is an integral part of NOVATEK's risk management system. In 2015, the insurance coverage guaranteed adequate protection against the risks of damage to the business of the Company or its subsidiaries and joint ventures. Insurance is provided by reputable insurance companies that have high ratings by leading rating agencies (Standard & Poor's, Expert RA, A. M. Best) with partial reinsurance of risks by major international insurance and reinsurance companies.

Obligatory Risk Insurance

The Company and its subsidiaries and joint ventures fully meet the requirements of the applicable laws for maintaining obligatory insurance, such as civil liability insurance of:

- owners of hazardous production facilities; and
- owners of transport vehicles.

Optional Risk Insurance

To reduce the risk of financial losses, the Company and its subsidiaries and affiliates maintain the following types of optional insurance:

- Insurance of the risk of property damage/loss, including the risk of mechanical failures;
- Insurance of the risk of damage from business interruption;
- Insurance of risks related to prospecting, exploration and production (risk of loss of control over a well); and
- Management liability insurance.

Since 2013, the Company implemented a comprehensive program of property and business risk insurance with respect to its and its subsidiaries' and joint venture's key assets. The cumulative insured amount for the risks of property damage and business interruption as at the end 2015 was RR 482 billion. The implemented program is viewed by the Company's management as an efficient measure for mitigating the consequences of potential accidents and provides additional guarantees for the attainment of the expected net profit and key indicators of the Company's performance.

In the reporting year, no insured major accidents or incidents occurred.

For more than ten (10) years the Company has maintained a management liability insurance for the top management of the Company and its subsidiaries against possible third-party claims for any losses incurred through any wrong action (or decision) made by its management bodies. The overall limit of all insurance coverage is Euro 120 mln.

INFORMATION ON MEMBERS OF NOVATEK'S BOARD OF DIRECTORS

Mr. Alexander E. Natalenko

Born in 1946

- Chairman of NOVATEK's Board of Directors
- Chairman of its Strategy Committee

Mr. Natalenko completed his studies at the Irkutsk State University in 1969 with a primary focus in Geological Engineering. Subsequently, he worked with the Yagodinskaya, Bagdarinskaya, Berelekhskaya, Anadirskaya and East-Chukotskaya geological expeditions. In 1986, Mr. Natalenko headed the North-East Industrial and Geological Association and, in 1992, he was elected president of AO "Magadan Gold & Silver Company". He subsequently held various executive positions in Russian and foreign geological organizations. From 1996 to 2001, Mr. Natalenko held the position of Deputy Minister of Natural Resources of the Russian Federation. From 2013 to 2015 he was a member of the Board of Directors of AO Rosgeologia. From 2004 to present he is the Chairman of NOVATEK's Board of Directors.

Mr. Natalenko is the recipient of the State Prize of the Russian Federation and an Honored Geologist of Russia.

Mr. Andrei I. Akimov

Born in 1953

- Member of NOVATEK's Board of Directors
- Member of its Strategy Committee

Mr. Akimov graduated from the Moscow Financial Institute in 1975 where he specialized in international economics. Between 1974 and 1987, Mr. Akimov held various executive positions in the Bank for Foreign Trade of the USSR. From 1985 to 1987 he served as Deputy Chief General Manager of the Bank for Foreign Trade branch in Zurich (Switzerland) and between 1987 and 1990, Mr. Akimov was the Chairman of the Management Board of Donau Bank in Vienna (Austria). From February 1991 to January 2003 he was Managing Director of financial company, IMAG Investment Management & Advisory Group AG (Austria). Since 2003, Mr. Akimov has been the Chairman of the Management Board of Gazprombank (OAO). He is a member of Board of Directors of PAO Gazprom, Gazprombank (AO), OAO Rosneft, OAO Rosneftegaz, Gazprom Germania GmbH, OOO Gazprom gas motor fuel, GPB International S.A. and other.

Dr. Burckhard Bergmann

Born in 1943

- Member of NOVATEK's Board of Directors
- Member of its Strategy Committee

Dr. Bergmann studied physics at the Freiburg and Aachen Universities from 1962 to 1968 and was awarded a Doctorate in Engineering by Aachen University of Technology in 1970. From 1968 to 1969, Dr. Bergmann worked at the German Federal Ministry for Research and Technology and from 1969 to 1972 — at the Jülich Nuclear Research Center. In 1972, Dr. Bergmann joined Ruhrgas AG (from 1 July 2004 — E. ON Ruhrgas AG), heading the LNG Purchasing Department. In 1978, he became Head of the Gas Purchasing Division responsible for gas purchasing, commercial aspects of gas transmission and storage. In 1980, he was elected as a member of the Management Board of E. ON Ruhrgas AG, serving from June 1996 as its Vice-Chairman and from June 2001 to February 2008 as its Chairman. From March 2003 to February 2008 he was also a member of the Management Board of E. ON AG.

Till 2013 Dr. Bergmann was a member of the Boards of Directors (Supervisory Boards) of: Allianz Lebensversicherungs-AG, Commerzbank AG, Contilia GmbH. At present, he is a member of the Advisory Boards for Dana Gas International, Vice Chairman of the Advisory Board of Accumulatoren-werke Hoppecke GmbH and a member of the Board of Trustees of RAG AG and a member of the Board of Directors of Telenor ASA.

Dr. Bergmann holds the following distinctions: Commander of the Royal Norwegian Order of Merit (1997); Honorary Consul of the Russian Federation in the State of North Rhine-Westphalia; a Foreign Member of the Academy of Technological Sciences of the Russian Federation (2003); Order of Merit of the State of North Rhine-Westphalia (2004) as well as a winner of Director of the Year, Moscow (2007); Officer's Cross of the Order of Merit of the Federal Republic of Germany (2008). In June 2011, by means of presidential Decree he became a recipient of the Order of the Friendship of Peoples award for significant contribution in development of the Russian-German relations.

Mr. Michael Borrell

Born in 1962

- Member of NOVATEK's Board of Directors
- Member of its Strategy Committee

Mr. Borrell graduated from the University of Cambridge with a degree in Chemical and Mechanical Engineering (Master of Science — 1993, Bachelor — 1984). He joined TOTAL in 1985. Mr. Borrell worked with the affiliated companies of the concern; from 1995 he held a number of senior management positions in TOTAL. From 2003, he worked at the position of Vice-President for Corporate Planning and Business Development

in Total E&P Indonesia. In July 2006, he was appointed President and CEO of TOTAL E&P Canada in Calgary. From September 2009 to June 2010, he was Vice President of the Caspian Area and Central Asia for TOTAL Exploration and Production. From July 2010, he worked as First Vice President of Continental Europe and Central Asia. Since 1 January 2015, he has been appointed Senior Vice-President of Europe and Central Asia.

Mr. Robert Castaigne

Born in 1946

- Independent member of NOVATEK's Board of Directors
- Member of the Remuneration and Nomination Committee of NOVATEK's Board of Directors
- Member of the Audit Committee of NOVATEK's Board of Directors

Mr. Castaigne graduated from the Ecole Centrale de Lille in 1968 and the Ecole nationale supérieure du pétrole et des moteurs, he holds a doctorate in economics. He has spent his whole career at TOTAL SA, first as an engineer, then in various positions. From 1994 to 2008, he was Member of the Executive Committee, Executive Vice-President and Chief Financial Officer of TOTAL SA. He is Member of SANOFI's Board of Directors and Chairman of its Audit Committee, Member of VINCI's Board of Directors and its Audit and Remuneration Committees, Member of Societe Generale's Board of Directors and its Risk, Audit and Internal Control Committees. He is Chevalier of the National Order of the Legion of Honour.

Mr. Leonid V. Mikhelson

Born in 1955

- Member of NOVATEK's Board of Directors
- Chairman of NOVATEK's Management Board

Mr. Mikhelson received his primary degree from the Samara Institute of Civil Engineering in 1977, where he specialized in Industrial Civil Engineering. That same year, Mr. Mikhelson began his career as foreman of a construction and assembling company in Surgut, Tyumen region, where he worked on the construction of the first section of Urengoi-Chelyabinsk gas pipeline. In 1985, Mr. Mikhelson was appointed Chief Engineer of Ryazantruboprovodstroy. In 1987, he became General Director of Kuibishevtruboprovodstroy, which in 1991, was the first company in the region to sell its shares and became private company, AO SNP NOVA. Mr. Mikhelson remained SNP NOVA's Managing Director from 1987 through 1994. Subsequently, he became a General Director of the management company "Novafininvest".

Since 2003, Mr. Mikhelson has served as a member of the Board of Directors and Chairman of the Management Board of NOVATEK. From March 2008 to December 2010, he has been a member of the Board of Directors and the Chairman of the Board of Directors of OAO Stroytransgas. From 2009 to 2010 he was the Chairman of the Board of Directors of OAO Yamal LNG and from 2008 to 2011 he was a member of the Board of Directors of OOO Art Finance. From 2011 he is the Chairman of the Board of Directors of PAO SIBUR Holding and from 2011 to 2013 he was a member of the Supervisory Board of the OAO Russian Regional Development Bank. Mr. Mikhelson is the recipient of the Russian Federation's Order of the Badge of Honor, the Order of Merit for the Fatherland 2 degree and the title of honor "Honored person of the gas industry".

Mr. Victor P. Orlov

Born in 1940

- Independent member of NOVATEK's Board of Directors
- Chairman of NOVATEK's Remuneration and Nomination Committee
- Member of NOVATEK's Audit Committee

In 1968, Mr. Orlov graduated from the Tomsk State University as a geological engineer with a degree in "Geological survey and exploration of mineral deposits", and in 1986 from the Academy of National Economy under the USSR Council of Ministers, with a specialty in "Economics and Management of a National Economy".

From 1957 to 1963, he worked at coal mine and served in the Soviet Army. From 1968 to 1975, he was head of a geological survey, prospecting and exploration works in the geological organizations of Western Siberia, held positions of the geologist, chief geologist, chief of geological exploration crew. 1975–1978 — Consultant on geological exploration works in Iran. 1979–1981 — Deputy Head of the Geological Division of the Production Geological Association of central areas of Russia (Tsentrgeologiya). 1981–1986 — Deputy Head of Geology and Production departments of the Ministry of Geology of the RSFSR. 1986–1990 — CEO of Tsentrgeologiya. 1990–1992 — Deputy Minister of Geology of the USSR, First Deputy Chairman of the RSFSR State Committee for Geology and Use of Energy and Mineral Resources. 1992–1996 — Chairman of the Russian Federation Committee on Geology and Mineral Resources. 1996–1999 — Minister of Natural Resources of the Russian Federation. 2001–2012 — Member of the Federation Council of the Federal Assembly of the Russian Federation. 2001–2004 — First Deputy Chairman of the Federation Council Committee on Natural Resources and Environmental Protection. 2004–2011 — Chairman of the Federation Council

Committee on Natural Resources and Environmental Protection. From 1998 to present — President of "Russian Geological Society" public organization. Author and co-author of over 300 scientific publications.

Professor, Doctor of Economics (1991), Candidate of geological-mineralogical sciences (1974), an Honored Geologist of Russia. Laureate of the State Prize of the Russian Federation in the field of science and technology. He was awarded the Order of Merit for the Fatherland 4 degree (2001), the Order of Honor (2015), 18 non-governmental awards, including 3 appreciation letters of the President of the Russian Federation, 2 Certificates of Merit of the Government of the Russian Federation.

Mr. Andrei V. Sharonov

Born in 1964

- Independent member of NOVATEK's Board of Directors
- Chairman of NOVATEK's Audit Committee
- Member of NOVATEK's Remuneration and Nomination Committee

Mr. Sharonov graduated from the Ufa Aviation Institute and the Russian Academy of State Service at the President of the Russian Federation.

1989–1991 — Member of the USSR Parliament, until 1996 he headed the Committee for Matters Concerning Young Persons of the Russian Federation. From 1996 to 2007 — Head of Department, Deputy Minister, State Secretary in the Ministry of Economic Development and Trade of the Russian Federation. From 2007 to 2010 — Managing Director and Chairman of the Board of Directors of ZAO Investment Company Troika Dialog, head of the investment banking sector. From 2010 to 2013 — Deputy Mayor of Moscow for economic policy, was responsible for budgeting, procurement, industrial policy and business support, regulated market of trade and services. Served as a Chairman of the Regional Energy Commission. From September 2013 — President of the Moscow School of Management SKOLKOVO and Adviser to the Mayor of Moscow.

From 2011 to 2015 at various times he was a member of ALROSA's Supervisory Board (OAO); member of the Board of Directors of OAO Bank of Moscow and of "National Research University "Higher School of Economics".

He is currently a member of the Board of Directors of PAO Sovcomflot; Chairman of the Board of Directors, an Independent member of the Board of Directors of OOO Management Company NefteTransService;

Chairman of the Board of Directors of OAO Management Company Eko-sistema; a member of the Board of Directors of AO Rosgeologia, a member of the Supervisory Board of PAO Moscow Stock Exchange and the Bank VTB (PAO).

Candidate of sociological sciences, an Honored Economist of the Russian Federation. He is the recipient of the "Aristos" Award in the "Independent Director" category in 2009, the National Award "Director of the Year — 2009" in the "Independent Director" category and the International Award "Person of the Year — 2012" in the "Business reputation" category. He was awarded the Order of Honor of the Russian Federation.

Mr. Gennady N. Timchenko

Born in 1952

- Member of NOVATEK's Board of Directors
- Member of NOVATEK's Strategy Committee

In 1976, Mr. Timchenko graduated with a Master's of Science from the Mechanical University in Leningrad. He began his career at the Izjorskii Factory in Leningrad, an industrial plant which made components for the energy industry. Between 1982 and 1988, he was a Senior Engineer at the Ministry of Foreign Trade. Mr. Timchenko has more than 20 years of experience in Russian and International energy sectors and he has built interests in trading, logistics and transportation related companies.

In 1988, Mr. Timchenko became a vice president of Kirishineftekhimexport, the export and trading arm of the Kirishi refinery. In 1991, he worked for Urals Finland which specialized in oil and petrochemical trading. Between 1994 and 2001, Mr. Timchenko was managing Director of IPP OY Finland and IPP AB Sweden. Between 1997 and 2014, he co-founded Gunvor, a leading independent oil-trading company. Mr. Timchenko was a member of the Board of Directors of OOO Transoil and OOO BalttransService, Airfix Aviation OY. Since 2009, he is a member of the Board of Directors of OAO NOVATEK. He is a member of the Board of Directors of PAO SIBUR Holding, the Chairman of the Board of Directors, President of the Ice Hockey Club SKA St-Petersburg, as well as the Chairman of the Board of Directors of OOO Kontinental Hockey League, a member of the Board of Trustees of the All-Russian public organization Russian Geographical Society, the Chairman of the Russian Council of the NPO Russian Chinese Business Council, the Chairman of the Board to promote OCD, Vice-President of the Olympic Committee of the Russian Federation, the Chairman of the Economic Council of the Franco-Russian Chamber of Commerce (CCIFR).

INFORMATION ON MEMBERS OF NOVATEK'S MANAGEMENT BOARD

Mr. Leonid V. Mikhelson

Born in 1955

- Chairman of NOVATEK's Management Board
- Member of NOVATEK's Board of Directors

Details on Mr. Leonid V. Mikhelson are available in the "Information on Members of NOVATEK's Board of Directors" section.

Mr. Vladimir A. Baskov

Born in 1960

- Deputy Chairman of NOVATEK's Management Board

In 1986, Mr. Baskov graduated from the Moscow Higher Police School of the USSR. In 2000, he completed courses at the Management Academy at the Russian Ministry for Internal Affairs. From 1981 to 2003, he served in various departments within the Russian Ministry for Internal Affairs. From 1991 to 2003, Mr. Baskov held managerial positions within the aforementioned Ministry's organizational structures. In 2003 he was appointed Director of the Business Support Department for NOVATEK. In 2005 he was appointed Deputy Chairman of NOVATEK's Management Board and in 2007 he became a member of NOVATEK's Management Board. Candidate of Legal Sciences. He was awarded the Order For Personal Courage, the Russian Federation's Order of the Badge of Honor and other state and departmental awards: Honorary Diplomas of the President of the Russian Federation, the Minister of Internal Affairs, the Governor of the Moscow Region. He also has the awards of the Russian Orthodox Church (Order of Holy Prince Daniel of Moscow and a medal of St. Sergius).

Mr. Lev V. Feodosyev

Born in 1979

- Deputy Chairman of NOVATEK's Management Board — Commercial Director

In 2002, Mr. Feodosyev graduated from the Bauman Moscow State Technical University with a degree in Machinery and Foundry Engineering Technologies. In 2002, Mr. Feodosyev was appointed lead specialist at the Ministry of Energy of the Russian Federation. From 2003, he has served as lead specialist, senior specialist, adviser, deputy head of section, Deputy Director of Department at the Ministry of Economic Development and Trade of the Russian Federation. From October 2007, Mr. Feodosyev worked in NOVATEK as Director of the Strategic Planning and Development Department. From 2011, he was appointed as Deputy Commercial Director, Director of the Marketing and Gas

Sales Department of NOVATEK. Since February 2015, he has been appointed Commercial Director, Deputy Chairman of the Management Board of NOVATEK.

In 2014, Mr. Feodosyev was awarded NOVATEK's Honorary Certificate.

Mr. Alexander M. Fridman

Born in 1951

- First Deputy Chairman of NOVATEK's Management Board

In 1973, Mr. Fridman graduated from the Gubkin Institute of Oil and Gas in Moscow, with a degree in Oil and Gas Fields Development and Exploitation. Since 1973, he was employed by various Gazprom companies: as Chief Engineer of Nadymgazprom, Head of the Production and Technical Department of the Industrial Association, and Chief Engineer of Mostransgaz's Kaluga Department for Gas Transportation and Underground Storage. From 1992 to 2003, he was Technical Director, First Deputy General Director of a joint venture established by OAO Gazprom and DKG-EAST (Hungary). Since 2003 Mr. Fridman was the Deputy General Director of Novafininvest. In 2004, Mr. Fridman was elected Deputy Chairman of the Management Board of OAO NOVATEK. In August 2007, he was appointed a member of NOVATEK's Management Board. From February 2015 First Deputy Chairman of the Management Board of OAO NOVATEK. Mr. Fridman is the recipient of the title of honor "Honored man of the oil and gas industry".

Mr. Mark A. Gyetvay

Born in 1957

- Deputy Chairman of NOVATEK's Management Board

Mr. Gyetvay studied at Arizona State University (Bachelor of Science, Accounting, 1981) and later at Pace University, New York (Graduate Studies in Strategic Management, 1995). After graduation, Mr. Gyetvay worked in various capacities at a number of independent oil and gas companies (Champlin Petroleum Co., Texas, En-source Inc. and MAG Enterprises, Colorado, and Amerada Hess Corporation, New Jersey) where he specialized in financial and economic analysis for both upstream and downstream segments of the petroleum industry.

In 1994, Mr. Gyetvay began his work at Coopers and Lybrand, as Director, Strategic Energy Advisory Services. He subsequently moved to Moscow in 1995 with Coopers & Lybrand to lead the oil and gas practice. He was admitted as a partner of PricewaterhouseCoopers Global Energy where he assumed the role of client service engagement partner, Utilities and Mining practice, based in Russia (Moscow office). Mr. Gyetvay was an engagement partner on various energy and mining clients

providing overall project management, financial and operational expertise, maintaining and supporting client service relationships as well as serving as concurring partner on transaction services to the petroleum sector.

Mr. Gyetvay is a Certified Public Accountant, a member of the American Institute of Certified Public Accountants and an associate member of the Society of Petroleum Engineers. He is a recognized expert in the oil and gas industry, a frequent speaker at various industry and investor conferences, has published numerous articles on various oil and gas industry topics and was a former member of PwC's Petroleum Thought Leadership team. He has been recognized by Investor Relations Magazine as one of the best CFO's in Russia and the CIS, and more recently by Institutional Investor magazine as one of the Top Five CFO's in Europe's Oil and Gas sector. Finance Monthly magazine recently named Mark Gyetvay the Best CFO in Russia 2015.

From 2003 to 2014, Mr. Gyetvay was a member of NOVATEK's Board of Directors and served on the Investment and Strategy Committee. In 2003–2014, he has been Chief Financial Officer and, in August 2007, Mr. Gyetvay was elected to NOVATEK's Management Board. In July 2010, he became Deputy Chairman of NOVATEK's Management Board.

Ms. Tatyana S. Kuznetsova

Born in 1960

- Deputy Chairman of NOVATEK's Management Board
- Director of NOVATEK's Legal Department

Ms. Kuznetsova graduated from the Far East State University with a degree in Law. From 1986, she was Senior Legal Advisor for a legal bureau. In 1993, Ms. Kuznetsova became Deputy General Director for Legal Issues and from 1996, Marketing Director for OAO Purneftegasgeologiya. In 1998, she was appointed Deputy General Director of OAO Nordpipes. Since 2002, she has been Director of the Legal Department for NOVATEK. Since 2005, she has been the Deputy Chairman of NOVATEK's Management Board — Director of NOVATEK's Legal Department and in August 2007, she became a member of NOVATEK's Management Board. Ms. Kuznetsova has the title "Honored employee of OAO NOVATEK", and is awarded the Order of Merit for the Fatherland 2 degree.

Mr. Iosif L. Levinzon

Born in 1956

- Member of NOVATEK's Management Board
- Advisor on Geology

Mr. Levinzon graduated from the Tyumen Industrial Institute specializing in geology of oil and gas fields. From 1978 to 1987, he was the operator and then Head of the Urengoy oil expedition. From 1987 to 1996 he was the General Director of Purneftegasgeologiya. From 1996 to 2005, Mr. Levinzon was the Deputy Governor, 1st Deputy Governor and Vice-Governor of the Yamal-Nenets Autonomous Region. From 2005 to 2006, Mr. Levinzon he has been an Advisor to the Chairman of the Federation Council of the Federal Assembly of the Russian Federation. From 2006 to 2009, Mr. Levinzon has been an Advisor on Corporate and Strategic Development at ZAO OSTER and also at ZAO Investgeoservis. Since August 2009, Mr. Levinzon has held the position of Deputy Chairman of NOVATEK's Management Board and in December 2009 he was elected a member of NOVATEK's Management Board.

Mr. Levinzon is an Honored Geologist of Russia, a recipient of the Order of the Badge of Honor and the Order of the Friendship of Peoples awards and has been awarded the Certificate of Merit from the Governor of the Yamal-Nenets Autonomous Region.

Mr. Sergey V. Protosenya

Born in 1966

- Deputy Chairman of NOVATEK's Management Board

In 1991, Mr. Protosenya graduated from the Moscow Institute of Engineering and Construction named after Kuybyshev with a degree in Engineering and Economics. From 1991 to 1992, he was Chief Accountant of a small enterprise RESTEPP and from 1992 to 1993 worked as Deputy Chief Accountant in the Moscow branch of Uzinbank. In 1993, Mr. Protosenya took a position of Deputy Head of Division for Analysis, Accounting and Reporting in Lefko-Bank (joint-stock commercial bank). From 1995 to 1997, he held a position of Deputy Director of AOOT SNP Nova. From 1997, Mr. Protosenya was Deputy Director General for Economics of OAO FIK Novafininvest (financial and investment company) and then took a position of Finance Director of OAO NK Tarkosaleneftegas. In 2001, he was appointed Head of Accounting, Reporting, Analysis and Business Planning Department of OAO Pur-Land. In 2002, Mr. Protosenya worked as First Deputy Chief Accountant of OOO NK ITERA.

In 2002–2014 — Chief Accountant of OAO NOVATEK, Deputy Chairman of the Management Board — Chief Accountant of OAO NOVATEK. From February to December 2015 — Deputy Chairman of the Management Board of OAO NOVATEK.

Mr. Protosenya holds Honorary Certificate awarded by the Ministry of Energy of the Russian Federation.

Mr. Kirill N. Yanovskiy

Born in 1967

- Member of NOVATEK's Management Board
- Director for Finance

In 1991, Mr. Yanovskiy graduated from the Gubkin Institute of Oil and Gas in Moscow. From 1992, he headed a department of the Yugorsky Joint-Stock Bank. From 1995, he headed the Securities Department at the Neftek Joint-Stock Commercial Bank. Since 2002, he has been Director of NOVATEK's Financial Planning, Analysis and Control Department. In August 2007, Mr. Yanovskiy was elected to NOVATEK's Management Board and in 2007 was appointed Deputy Director for Finance and Strategy. Since May 2011 he has been Director for Finance and Strategy, since February 2015 he is Director for Finance of OAO NOVATEK.

MAJOR, MATERIAL AND RELATED PARTY TRANSACTIONS

In 2015, no related party transactions were entered into by NOVATEK.

The Company entered into one **major transaction** as follows:

Transaction type and scope: associated transactions, including the Share Purchase Agreement (the "Agreement") and Parent Company Guarantee (the "Guarantee").

Scope of the Agreement: sale and purchase of three hundred fifty seven thousand four hundred and fifteen (357,415) ordinary registered shares of OAO Yamal LNG with a nominal value of one hundred roubles (RUB 100) each (the issue's state registration number — 1-01-10428-A), comprising nine point nine percent (9.9%) of OAO Yamal LNG's issued share capital (the "Shares"). The transaction shall be closed following the effective date of the Protocol to the Agreement between the Government of the Russian Federation and the Government of the People's Republic of China on Cooperation in the Implementation of the Yamal LNG Project.

Scope of the Guarantee: provision of collateral for all of NOVATEK EQUITY (CYPRUS) LIMITED's obligations to the Lender under the Loan Agreement totaling approximately 730,000,000 euro for a period of 15 years (the "Secured Loan Agreement").

Parties to the Agreement:

- Sellers: OAO NOVATEK, NOVATEK Moscow Region LLC and NOVATEK-Perm LLC;
- Buyer: YAYM LIMITED.

Parties to the Guarantee:

- Guarantor: OAO NOVATEK;
- Beneficiary: YAYM LIMITED (Lender under the Secured Loan Agreement).

Transaction size: comprises the price of the Shares and the total of the secured obligations (loan principal and interest) exceeding 25% of NOVATEK's assets value as at 30 September 2015.

Transaction date: 17 December 2015.

The transaction was approved by OAO NOVATEK's Board of Directors on 10 December 2015 (Minutes No. 181 of 10 December 2015).

NOVATEK also entered into several material transactions that are not major transactions.

A material transaction that is not a major transaction

Transaction type and scope: National Wealth Fund Debt Service Undertaking (the "DSU").

Parties:

- DSU Guarantors: OAO NOVATEK, TOTAL S. A., China National Oil and Gas Exploration and Development Corporation and OAO Yamal LNG;
- DSU Beneficiary: Ministry of Finance of the Russian Federation acting for and on behalf of the Russian Federation.

DSU scope: with OAO Yamal LNG ("Yamal LNG") issuing bonds to be purchased by the Ministry of Finance of the Russian Federation (the "Ministry"), OAO NOVATEK ("NOVATEK"), TOTAL S. A. ("Total") and China National Oil and Gas Exploration and Development Corporation (the "CNODC") undertake that, in case of Yamal LNG's failure to pay any amount due to the Ministry under the bonds (or under any other document signed by the Ministry in respect of such bonds, including those signed with the project finance lenders), they shall pay the pro rata share of the amount owed by Yamal LNG to the Ministry.

NOVATEK's obligations under the DSU end on the earlier of (provided there are no outstanding obligations as at the said date):

- (1) completing the construction of all the three process trains at the LNG plant and passing a defined set of tests confirming the successful completion of such construction;
- (2) NOVATEK fulfilling its obligations under the DSU in full; or
- (3) Yamal LNG repaying its debt under the bonds in full.

NOVATEK's liabilities under the DSU: 59.9738% (inclusive of an adjustment in line with the DSU and contracts related thereto) of the bonds' principal amount of up to one hundred and fifty billion roubles (RUB 150,000,000,000) as at the date of issue, the interests payable on the above principal and other amounts payable in connection with the bonds. NOVATEK's liability totals 16.9833% of the issuer's assets value.

Transaction date (DSU date): 5 August 2015.

The transaction was approved by OAO NOVATEK's Board of Directors on 22 July 2015 (Minutes No. 177 of 22 July 2015).

A material transaction that is not a major transaction:

Transaction type and scope: an agreement to supply 2.6 bcm per annum of combustible natural gas from 1 January 2016 to 31 December 2020.

The term of the gas supply obligations extends from the date PAO Gazprom's consent to sign an agreement with the Supplier to transport gas to the Buyer to 31 December 2020.

Parties:

- Joint Stock Company NOVATEK as the Supplier;
- Open Joint Stock Company NLMK as the Buyer.

The estimated transaction value exceeds seventy billion roubles (RUB 70,000,000,000), i. e. more than 13% of NOVATEK's assets value as at 30 June 2015.

Transaction date (date of the Agreement): 21 August 2015.

The transaction has not been approved yet.

A material transaction that is not a major transaction:

Transaction type and scope: Master Agreement for a Framework Revolving Credit Facility with Differentiated Interest Rates signed by OAO NOVATEK (the "Borrower") and PAO Sberbank of Russia (the "Lender").

The Lender shall open for the Borrower a framework revolving credit facility to finance the Borrower's ongoing operations, including provision of loans, for the period up until 24 September 2018 and with a financing limit of fifty billion roubles (RUB 50,000,000,000).

Under the Agreement, the Lender and the Borrower shall enter into separate Credit Transactions on terms and conditions agreed by the Parties, including:

- loan amount;
- loan issue and maturity dates;
- interest rate or criteria used to determine and change such interest rates, interest periods;
- commitment and early repayment fees.

Full loan repayment date: on or prior to 24 September 2018.

Transaction size: comprises credit facilities (with a financing limit of fifty billion roubles (RUB 50,000,000,000)), commitment fee, early repayment fee and interest; may exceed 10% of NOVATEK's assets value.

Transaction date (date of the Agreement): 14 October 2015.

The transaction has not been approved yet.

On top of that, a material entity controlled by the Company entered into a major transaction in 2015 as follows:

Transaction type and scope: LNG Sale and Purchase Agreement between OAO Yamal LNG (the "Seller") and Yamal Trade PTE. LTD. (the "Buyer"). The Seller shall supply 100% of LNG produced at the Yamal LNG facilities to meet its LNG supply obligations under the LNG Sale and Purchase Agreement to the effect that the Buyer in its turn could meet its obligations under agreements on subsequent LNG sales entered into with the next buyers.

The LNG Sale and Purchase Agreement shall be effective until 31 December 2045 (except if early terminated or if the Parties agree to extend the Agreement).

Transaction date (date of the Agreement): 31 March 2015.

The transaction was approved by OAO Yamal LNG's Board of Directors on 17 March 2015 (Minutes No. 163 of 17 March 2015).

INFORMATION (REPORT) ON THE OBSERVANCE BY A JOINT STOCK COMPANY OF THE PRINCIPLES AND THE RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE RECOMMENDED FOR APPLICATION BY THE BANK OF RUSSIA

Corporate governance system, including the model and corporate governance practices, are described in detail in the “Corporate Governance” section of this Annual Report. The Company complies with the basic principles of the Corporate Governance Code recommended for application by the Bank of Russia. Some principles are not formally respected due to the absence of relevant rules in the internal documents, but are complied with in our actual activities.

In assessing our compliance with the corporate governance principles we used a form received from

ZAO “MICEX Stock Exchange” (Information letter No 31–14/236 of 13.03.2015) and placed on the website of ZAO “MICEX Stock Exchange” at <http://moex.com/s22>.

In order to improve the Company’s corporate governance system it is planned to amend the Regulation on the General Meeting of Shareholders of OAO NOVATEK in 2016, as well as implement additional analysis of the Corporate Governance system in connection with the changing corporate law with a view to planning the measures aimed at further development of our corporate governance system.

PRINCIPLE	OBSERVANCE	COMMENT
No. Corporate governance principle(s) or key criterion (recommendation)	A brief description of non-compliance with the corporate governance principle or key criterion	The explanation of the key reasons, factors and circumstances due to which the principle or key criterion is not complied with or is complied with in part, the description of alternative corporate governance mechanisms and tools

I. SHAREHOLDER RIGHTS AND EQUITABLE TREATMENT OF SHAREHOLDERS

- 1.1. The company should ensure equitable and fair treatment of every shareholder exercising their right to take part in managing the company. Corporate governance framework and practices should ensure equality for the shareholders owning the same type (class) of shares, including minority and non-resident shareholders, and their equitable treatment by the company.

PRINCIPLE	OBSERVANCE	COMMENT
<p>1.1.1. The company has an approved internal regulation setting forth key procedures to prepare for, convene and hold general meetings of shareholders in compliance with recommendations of the Corporate Governance Code, including the company's obligations to:</p> <ul style="list-style-type: none"> notify shareholders of general meetings and provide access to the relevant materials, including by posting the notice and materials at the corporate website, at least 30 days prior to such meeting, unless a longer time period is required by the applicable Russian law; announce the record date at least seven days prior to such date; provide additional information and materials on the general meeting agenda as recommended by the Corporate Governance Code. 	<p>The Company's internal regulation setting forth key procedures to prepare for, convene and hold general meetings of shareholders does not formalize the obligations to:</p> <ul style="list-style-type: none"> provide access to the relevant materials at the Company's website; announce the record date at least seven days prior to such date; provide additional information and materials on the general meeting agenda as recommended by the Corporate Governance Code. 	<p>As per Clause 2, Article 24 of NOVATEK's Regulations on General Meeting of Shareholders, the Company may post information (materials) to be made available to the persons entitled to attend general meetings at its corporate website (www.novatek.ru). As a matter of fact, in preparing the general meeting of shareholders the Company posts such information (materials) at its corporate website no later than 30 days prior to the meeting.</p> <p>Under the applicable Russian law, public joint-stock companies are required to announce the record date at least nine days prior to such date (see Paragraph 2, Clause 1, Article 51 of the Federal Law On Joint-Stock Companies). Hence, this Corporate Governance Code recommendation is not up to date any longer.</p>
<p>1.1.2. The company undertakes to enable its shareholders to put questions on the company's operations to members of the management and control bodies, audit committee, chief accountant, company's auditors, and nominees to management and control bodies, during the general meeting and in the course of respective preparations. The said obligations are set forth in the company's articles of association or internal regulations.</p>	<p>This principle is complied with.</p>	<p>-</p>
<p>1.1.3. The company observes the principle of preventing any action that may result in an artificial redistribution of corporate control (for example, voting with quasi-treasury shares, decision to pay dividends on preferred shares regardless of limited financial capacities, decision not to pay dividends on preferred shares as required by the articles of association regardless of sources being sufficient for payment). The said obligations are set forth in the company's articles of association or internal regulations.</p>	<p>The Company's articles of association and other internal regulations do not impose restrictions on voting with quasi-treasury shares.</p>	<p>In fact, the Company does not vote with quasi-treasury shares during general meetings of shareholders, as required by international best practices.</p>
<p>1.1.4. Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).</p>	<p>-</p>	<p>-</p>

1.2 Shareholders should be given equal and fair opportunities to receive a share of the company's profit in the form of dividends.

<p>1.2.1. The company has an approved internal regulation stipulating its dividend policy in compliance with recommendations of the Corporate Governance Code, including, inter alia:</p> <ul style="list-style-type: none"> procedures to determine a portion of the company's net profit (for companies issuing consolidated financial statements — a minimum portion (share) of consolidated net profit) to be distributed in the form of dividends, and conditions to declare dividends; minimum dividends payable on different types (classes) of shares; mandatory disclosure of the document governing the company's dividend policy at its corporate website. 	<p>The Company's internal regulation governing its dividend policy does not require a mandatory disclosure of this document at its corporate website.</p>	<p>NOVATEK's Regulation on Dividend Policy is disclosed through the Company's website.</p>
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PRINCIPLE	OBSERVANCE	COMMENT
1.2.2. Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).	-	-

II. THE COMPANY'S BOARD OF DIRECTORS

2.1 The board of directors' core responsibilities should include determining the company's long-term strategic targets, key performance indicators (KPIs), key risk management and internal control principles and approaches, strategic governance, exercising control over the company's executive bodies, articulating the company's policy on remunerating its directors and executive body members, etc.

2.1.1. The company has a board of directors to: <ul style="list-style-type: none"> determine the company's long-term strategic targets and KPIs; control the company's executive bodies; determine the company's risk management and internal control principles and approaches; articulate the company's policy on remunerating its directors, executive body members and other key managers. 	This principle is complied with.	-
2.1.2. Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).	-	-

2.2. The board of directors should manage the company in an efficient and competent manner and make fair and independent judgments and decisions in line with the best interests of the company and its shareholders. The chairperson of the board should ensure that the board of directors discharges its duties in the most effective and efficient way. The board of directors should ensure proper discharge of its duties by conducting meetings attended by directors and making the respective preparations.

2.2.1. The board is chaired by an independent director, or a senior independent director supervising the activities of other independent directors and interacting with the board's chairperson should be appointed from among the elected independent directors.	This principle is not complied with.	For chairmanship purposes, the directors elected the most experienced of the Board members who is not an independent director. No senior independent director was appointed to supervise the activities of other independent directors and interact with the board's chairperson.
2.2.2. The company's internal regulations stipulate the procedure to prepare for and hold the board's meetings, enabling the directors to make proper preparations, including, inter alia: <ul style="list-style-type: none"> meeting notice period; deadlines for circulating voting ballots and submitting the completed ones in case of in-absentia meetings; option to submit and consider a director's written opinion on the agenda items if they are not present at an in-person meeting; option to participate in a meeting and voting via an audio or video conference. 	The Company's internal regulations do not provide for audio/video conference debates and voting at the Board's meetings.	Due to the efficient planning of Board meetings held in person and in absentia and directors' commitment to attend any such meeting, the Company does not need to arrange for audio/video conferencing during the debates and voting at the Board's meetings. Should the need arise, the Company will be able to provide audio/video conference solutions to support debates and voting at the Board's meetings.

PRINCIPLE	OBSERVANCE	COMMENT
2.2.3. Resolutions on the most important matters are passed at the board's in-person meetings. The list of such matters is compliant with the Corporate Governance Code. ¹	This principle is not fully complied with, as the Board of directors considered some of the matters specified in Clause 168, Part B of the Corporate Governance Code at in-absentia meetings.	In preparing its meeting schedule, the Board of directors is guided by this corporate governance principle. Some urgent matters however might be arising in the normal course of the Company's business throughout the year. For the purposes of quick decision-making, the Board of directors brings up such matters at in-absentia meetings providing the directors with materials required to perform thorough analysis and make well-informed decisions.
2.2.4. Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).	-	-
2.3. The board of directors should include a sufficient number of independent directors.		
2.3.1. Independent directors make up at least one third of the elected board members.	This principle is complied with.	-
2.3.2. Independent directors fully meet the independence criteria set forth in the Corporate Governance Code.	This principle is complied with.	-
2.3.3. The board of directors (nomination/HR committee) verifies a board nominee's compliance with the independence criteria.	This principle is complied with.	-
2.3.4. Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).	-	-
2.4. The board of directors should set up committees for preliminary consideration of key matters related to the company's operations.		
2.4.1. The board of directors has set up an audit committee made up of independent directors. Its responsibilities are set forth in the company's internal regulations and are compliant with recommendations of the Corporate Governance Code ² .	This principle is complied with.	-
2.4.2. The board of directors has set up a remuneration committee made up of independent directors (it may be combined with the nomination/HR committee). Its responsibilities are compliant with recommendations of the Corporate Governance Code ³ .	This principle is complied with.	-
2.4.3. The board of directors has set up a nomination/HR committee predominantly made up of independent directors (it may be combined with the remuneration committee). Its responsibilities are compliant with recommendations of the Corporate Governance Code ⁴ .	This principle is complied with.	-

1. See Clause 168, Part B of the Corporate Governance Code

2. See Clause 172, Part B of the Corporate Governance Code

3. See Clause 180, Part B of the Corporate Governance Code

4. See Clause 186, Part B of the Corporate Governance Code

PRINCIPLE	OBSERVANCE	COMMENT
2.4.4. Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).	-	-

2.5. The board of directors should assess its own, along with its members' and committees', performance.

2.5.1. The board's performance is assessed regularly at least once a year, and at least once in three years the company engages an external advisor to conduct such assessment.	This principle is not complied with.	The Board of directors is currently considering the possibility of applying this Corporate Governance Code recommendation.
2.5.2. Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).	-	-

III. THE COMPANY'S CORPORATE SECRETARY

3.1 The company's corporate secretary (or a dedicated business unit headed by such) should ensure efficient ongoing interaction with shareholders, coordinate the company's efforts to protect shareholder rights and interests and support the board's activities.

3.1.1. The corporate secretary reports to the board of directors and is appointed or removed from office by the board's resolution or approval.	This principle is complied with.	-
3.1.2. The company has an approved internal regulation setting forth the corporate secretary's rights and obligations (Regulation on the Corporate Secretary) as recommended by the Corporate Governance Code ¹ .	This principle is complied with.	-
3.1.3. The corporate secretary holds no concurrent positions in the company. His/her responsibilities are compliant with recommendations of the Corporate Governance Code ² . The corporate secretary has sufficient resources to discharge his/her duties.	This principle is complied with.	-
3.1.4. Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).	-	-

IV. REMUNERATION OF DIRECTORS, EXECUTIVE BODY MEMBERS AND OTHER KEY MANAGERS

4.1. Remuneration paid by the company should be sufficient to attract, motivate and retain persons who have competencies and qualifications required by the company. Directors, executive body members and other key managers should be remunerated as per the company's remuneration policy.

4.1.1. Payments, benefits and privileges available to directors, executive body members and other key managers are governed by the company's internal regulations.	This principle is complied with.	-
4.1.2. Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).	-	-

1. See Clause 217, Part B of the Corporate Governance Code
2. See Clause 218, Part B of the Corporate Governance Code

PRINCIPLE	OBSERVANCE	COMMENT
4.2. Directors' remuneration should ensure that their financial interests are aligned with long-term financial interests of shareholders.		
4.2.1. The company pays no cash remuneration to directors other than their fixed annual remuneration.	This principle is complied with.	Board members are paid a fixed fee for attending the Board of directors, as well as a fixed fee for attending each meeting of the Board of directors or the Board Committee. The remuneration of the Board members is independent of the Company's performance targets.
4.2.2. Directors are not entitled to participate in the company's stock option plans, and their right to dispose of the company shares owned by them is not linked to their performance targets.	This principle is complied with.	-
4.2.3. Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).	-	-
4.3. Remuneration of executive body members and other key managers should be linked to the company's results and their personal contribution thereto.		
4.3.1. The company has in place a long-term incentive programme for the executive body members and other key managers.	This principle is complied with.	-
4.3.2. Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).	-	-
V. RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM		
5.1. The company should put in place an effective risk management and internal control system to guarantee, in a reasonable manner, fulfilment of the company's goals.		
5.1.1. The Board of Directors has defined the Company's risk management and internal control principles and approaches.	This principle is complied with.	-
5.1.2. The company has established a standalone risk management and internal control unit.	This principle is complied with.	-
5.1.3. The company has drafted and implemented an anti-corruption policy specifying measures to develop anti-corruption elements of its culture and organisational structure as well as respective rules and regulations.	This principle is complied with.	-
5.1.4. Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).	-	-

PRINCIPLE	OBSERVANCE	COMMENT
5.2. The company should arrange for an internal audit, to assess reliability and performance of the risk management and internal control system on a regular and independent basis.		
5.2.1. The company has set up a standalone internal audit unit functionally reporting to the Board of Directors. The said unit's functions are compliant with recommendations of the Corporate Governance Code and include: <ul style="list-style-type: none"> • assessing internal control performance; • assessing risk management performance; • assessing corporate governance framework (in case there is no Corporate Governance Committee). 	This principle is complied with.	-
5.2.2. Head of Internal Audit reports to the Board of Directors and is appointed or removed from office by the Board's resolution.	This principle is complied with.	-
5.2.3. The company has an approved internal audit policy (Regulation on Internal Audit) defining internal audit goals, objectives and functions.	This principle is complied with.	-
5.2.4. Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).	-	-

VI. DISCLOSURE OF INFORMATION ABOUT THE COMPANY AND ITS INFORMATION POLICY

6.1. The company and its operations should be transparent for its shareholders, investors and other stakeholders.

6.1.1. The company has an approved internal regulation defining its information policy as recommended by the Corporate Governance Code. The company's information policy provides for the following ways of liaising with investors and other stakeholders: <ul style="list-style-type: none"> • a dedicated page at the corporate website featuring FAQs from investors and shareholders and respective replies, a regularly updated corporate calendar, and other useful information; • regular meetings between executive body members and other key managers and analysts; • regular presentations, including via teleconferences and webcasts, and meetings attended by governance body members and other key managers, including those related to the release of financial statements or the company's key investment projects and strategic plans. 	This principle is complied with.	-
6.1.2. The company's executive bodies are in charge of implementing its information policy. Control over proper disclosure and compliance with the information policy is exercised by the company's Board of Directors.	This principle is complied with.	-

PRINCIPLE	OBSERVANCE	COMMENT
6.1.3. The company has in place procedures to align all its functions and structural units whose activities are related to or may require information disclosure.	This principle is complied with.	-
6.1.4. Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).	-	-
6.2. The company should, in due time, disclose up-to-date, complete and reliable information on its operations, to enable its shareholders and investors to make informed decisions.		
6.2.1. If foreign investors hold a substantial share of the company's capital, the company discloses, along with disclosure of information in Russian, key information about itself (including an announcement of a general meeting to be held, its annual report) in a foreign language generally accepted on the financial market	This principle is complied with.	-
6.2.2. The company discloses information both about itself but also about legal entities controlled by and material to the company	This principle is complied with.	-
6.2.3. The company discloses annual and interim (half-year) consolidated or individual financial statements prepared in accordance with the International Financial Reporting Standards (IFRS). The company's annual consolidated or individual financial statements are disclosed together with the auditor's report, while its interim (half-year) consolidated or individual financial statements are disclosed together with the auditor's review report or the auditor's opinion.	This principle is complied with.	-
6.2.4. The company discloses a special memorandum setting out the controlling person's plans for the company. The said memorandum complies with the recommendations of the Corporate Governance Code*.	Not applicable as there is no controlling person in respect of the Company.	-
6.2.5. The company ensures disclosure of biographical details of its directors, including information as to whether they are independent directors and timely disclosure of information as to whether a director has lost their independent status.	This principle is complied with.	-
6.2.6. The company discloses information on its capital structure in compliance with recommendations of the Corporate Governance Code.	This principle is not fully complied with.	The Company discloses information on the persons who directly or indirectly dispose votes on shares constituting five or more percent of the share capital, in the form of material facts, and in the quarterly report on the basis of the notifications received from such persons.

* See Clause 279, Part B of the Corporate Governance Code

PRINCIPLE	OBSERVANCE	COMMENT
<p>6.2.7. The company's annual report includes the following additional information recommended by the Corporate Governance Code:</p> <ol style="list-style-type: none"> 1. a brief review of the most significant transactions entered into by the company and by legal entities controlled by it, including associated transactions, during the past year; 2. a report by the board of directors and its committees for the year, containing, inter alia, information on the number of meetings held in person (in absentia), attendance of each director, the most important and complicated matters discussed by the board and its committees, and principal recommendations by the committees to the board; 3. information on shares in the company directly or indirectly owned by its directors and /or executive body members; 4. information on whether the company's directors and /or executive body members have conflicts of interest (including those linked to their membership in competitors' governance bodies); 5. a description of remuneration of directors, including the amount of individual remuneration payable to each director based on annual performance (broken down into the base fee, additional remuneration for the chairing of the board of directors and chairing of /membership in its committees, the extent of participation in a long-term incentive program, the amount of each director's participation in an option plan, if any), reimbursement of related expenses, and costs incurred by the company in connection with liability insurance for its directors in their capacity of governance body members; 6. information on the total remuneration for the year: <ul style="list-style-type: none"> • in respect of a group of at least five top paid executive body members and other key managers of the company, broken down by type of remuneration; • in respect of all executive body members and other key managers covered by the company's remuneration policy, broken down by type of remuneration; 7. information on the sole executive body's remuneration for the year, which they have received or are to receive from the company (legal entity from a group that includes the company), broken down by type of remuneration, both for performing their duties of the sole executive body and on other grounds. 	<p>The annual report does not contain information on the remuneration for the year of the sole executive body, which he has received or is to receive from the company (legal entity from the group of companies, which includes company) broken down by each type of remuneration as for the performance of his duties as the sole executive body, and for other reasons.</p> <p>The annual report discloses information only about the direct ownership of the Board of directors or members of the executive bodies of the Company's shares.</p>	<p>Information on the remuneration of the Chairman of the Management Board is included into the information on the remuneration paid to the members of the Management Board</p> <p>Information on indirect ownership of the Board of directors or members of the executive bodies of the Company's shares is disclosed as a material fact on the basis of the notifications received from such persons.</p>

PRINCIPLE	OBSERVANCE	COMMENT
6.2.8. Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).	-	-

6.3. The company should provide information and documents requested by its shareholders in accordance with the principle of equal and unhindered accessibility.

6.3.1. In accordance with the company's information policy, its shareholders with equal quantity of the company's voting shares are given equal access to the company's information and documents.	This principle is complied with.	-
6.3.2. Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).	-	-

VII. MATERIAL CORPORATE ACTIONS

7.1. Actions which will or may materially affect the company's share capital structure and its financial position and accordingly the position of its shareholders ("material corporate actions") should be taken on fair terms ensuring that the rights and interests of the shareholders and other stakeholders are observed.

7.1.1. The company's articles of association include a list (criteria) of transactions or other actions deemed to be material corporate actions the consideration of which is reserved to the jurisdiction of the Board of directors, including: <ul style="list-style-type: none"> reorganization of the company, acquisition of at least 30% of its voting shares (takeover), increase or reduction of the company's authorized capital, listing and delisting of its shares; sale of shares (interests) in legal entities controlled by and material to the company, as a result of which the company loses control over such legal entities; transactions, including associated transactions, with the property of the company or legal entities controlled by the company, where the value of such assets exceeds the amount specified in the company's articles of association or is material to the business of the company; creation of a legal entity controlled by and material to the business of the company; disposal by the company of its treasury or quasi-treasury shares. 	<p>This principle is largely complied with.</p> <p>The Company's Articles of Association do not reserve matters related to disposal by the Company of its treasury or quasi-treasury shares to the authority of the Board of directors.</p>	The remit of the Company's Board of directors as described in the Articles of Association is compliant with the Federal Law On Joint-Stock Companies No. 208-FZ dated 26 December 1995 and covers most of the matters stipulated in this recommendation of the Corporate Governance Code.
7.1.2. Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).	-	-

7.2. The company should provide a procedure for taking material corporate actions that would enable its shareholders to receive full information about such actions in due time and influence them, and also guarantee that the shareholder rights are observed and duly protected when such actions are taken.

PRINCIPLE	OBSERVANCE	COMMENT
<p>7.2.1. The company's internal regulations provide for equitable treatment of all the shareholders of the company when taking material corporate actions affecting their rights and legitimate interests, and establish additional measures to protect rights and legitimate interests of the company's shareholders stipulated by the Corporate Governance Code, including:</p> <ul style="list-style-type: none"> • engagement of an independent appraiser with an impeccable reputation and relevant experience, or justification if otherwise, to estimate the value of the property disposed of or acquired pursuant to a major transaction or a related-party transaction; • valuation of the company's shares at their repurchase or redemption by an independent appraiser with an impeccable reputation and relevant experience, taking into account the weighted average share price over a reasonable period of time, ignoring potential effect of the transaction (including potential changes in the share price resulting from the relevant information disclosure), and ignoring minority discount; • introduction of additional related party criteria for the company's directors and other persons as per the applicable law, to assess their actual relationships. 	<p>This principle is not fully complied with.</p>	<p>The Company engages an independent appraiser in cases required by the Russian law.</p> <p>All transactions (except for transactions within the framework of charitable activities) are made by the Company solely on market principles, based on the objective of maximizing profits and increasing shareholder value.</p> <p>The grounds on which the Board members and other persons stipulated by law are deemed interested in the transactions of the Company under the law, to fully allow for a balance of interests of all categories of shareholders and the Company.</p>
<p>7.2.2. Other criteria (recommendations) of the Corporate Governance Code considered by the company as key and pertaining to the said corporate governance principle(s).</p>	<p>-</p>	<p>-</p>

FORWARD — LOOKING STATEMENTS

This Annual Review includes 'forward-looking information' within the meaning of Section 27A of the US Securities Act of 1933, as amended, and Section 21E of the US Securities Exchange Act of 1934, as amended. Certain statements included in this Annual Report and Accounts, including, without limitation, statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words "believe", "expect", "anticipate", "intends", "estimate", "forecast", "project", "will", "may", "should" and similar expressions identify forward-looking statements. Forward-looking statements include statements regarding: strategies, outlook and growth prospects; future plans and potential for future growth; liquidity, capital resources and capital expenditures; growth in demand for our products; economic outlook and industry trends; developments of our markets; the impact of regulatory initiatives; and the strength of our competitors. The forward-looking statements in this Annual Review are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data

contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, these assumptions are inherently subject to significant uncertainties and contingencies, which are difficult or impossible to predict and are beyond our control. As a result, we may not achieve or accomplish these expectations, beliefs or projections. In addition, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include:

- changes in the balance of oil and gas supply and demand in Russia and Europe;
- the effects of domestic and international oil and gas price volatility and changes in regulatory conditions, including prices and taxes;
- the effects of competition in the domestic and export oil and gas markets;
- our ability to successfully implement any of our business strategies;
- the impact of our expansion on our revenue potential, cost basis and margins;
- our ability to produce target volumes in the event, among other factors, of restrictions on our access to transportation infrastructure;

- the effects of changes to our capital expenditure projections on the growth of our production;
- potentially lower production levels in the future than currently estimated by our management and/or independent petroleum reservoir engineers;
- inherent uncertainties in interpreting geophysical data;
- changes to project schedules and estimated completion dates;
- our success in identifying and managing risks to our businesses;
- the effects of changes to the Russian legal framework concerning currently held and any newly acquired oil and gas production licenses;
- changes in political, social, legal or economic conditions in Russia and the CIS;
- the effects of technological changes;
- the effects of changes in accounting standards or practices.

This list of important factors is not exhaustive. When relying on forward-looking statements, one should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward looking statements speak only as of the date on which they are made. Accordingly, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. The information and opinions contained in this document are provided as at the date of this review and are subject to change without notice.

TERMS AND ABBREVIATIONS

Mentions in this Annual Report of “OAO NOVATEK”, “NOVATEK”, “the Company”, “we” and “our” refer to OAO NOVATEK and/or its subsidiaries (according to IFRS methodology) and/or joint ventures (accounted for on an equity basis according to IFRS standards), depending upon the context, in which the terms are used.

barrel	one stock tank barrel, or 42 US gallons of liquid volume
bcm	billion cubic meters
boe	barrels of oil equivalent
km	kilometer(s)
mboe	thousand boe
mcm	thousand cubic meters
mt	thousand metric tons
mmboe	million boe
mmcm	million cubic meters
mmt	million metric tons
ton	metric ton
SEC	United States Securities and Exchange Commission
PRMS	Petroleum Resources Management System
YNAO	Yamal-Nenets Autonomous Region
RR	Russian rouble
LPG	liquified petroleum gases
LNG	liquified natural gas

CONVERSION FACTORS

1000 cubic meters of gas = 6.54 boe

To convert crude oil and gas condensate reserves from tons to barrels we used various coefficients depending on the liquids density at each field.

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